An Analysis of Current South American Investment Offerings to Determine the Advisability of American Investment in the Bonds of South American Countries

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Outline

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On August 2, 1914, Germany brought forth into the light of public scrutiny the limited co-partnership of "Myself mit Gott". Thirty days later this cooperative organization was commonly referred to as the World War. Chaos existed. On April 7, 1917, the United States expressed her willingness to actively arbitrate the matter. November 11, 1918, is the date on which as a result of said arbitration the above mentioned consolidation was dissolved to the extent that there was a falling off in the demand for nitrates and steel. On March 10, 1923, the date of this paper, chaos still exists. The future is a matter of spirited speculation.

The Foreign Investment Problem in the United States

"C'est la guerre". Many things have come out of the war. Not the least of these is our problem of foreign investment.

Throughout the nineteenth, and, to a somewhat lesser extent the first ten years of the twentieth century, England found without her own domain the leading market for her surplus capital. British capital was in every corner of the commercial world. The Statist of February 14, 1914, contains an estimate made by Sir George Paish showing the following itemization of British Oversea Investments as of December 1913.

British Oversea Investments

December 1913

India and Colonies

Canada and Newfoundland - - - -	$2,574,350,000
Australia - - - - - - - - - - -	1,660,560,000
New Zealand - - - - - - - - - -	421,670,000
South Africa - - - - - - - - -	1,850,960,000
West Africa - - - - - - - - - -	186,525,000
India and Ceylon - - - - - - -	1,893,880,000
Straits Settlements - - - - - -	136,465,000
Hong Kong - - - - - - - - - - -	15,520,000
British North Borneo - - - - -	24,100,000
Other Colonies - - - - - - - -	130,945,000
Total India and Colonies - -	$8,899,975,000

Foreign

United States - - - - - - - - -	$3,773,085,000
Cuba - - - - - - - - - - - - -	165,375,000
Philippines - - - - - - - - - -	41,085,000
Argentina - - - - - - - - - - -	1,597,825,000
Brazil - - - - - - - - - - - -	737,825,000
Mexico - - - - - - - - - - - -	495,095,000
Chile - - - - - - - - - - - - -	305,715,000
Uruguay - - - - - - - - - - - -	180,620,000
Peru - - - - - - - - - - - - -	170,865,000
Miscellaneous American - - - -	127,690,000
Russia - - - - - - - - - - - -	333,135,000
Egypt - - - - - - - - - - - - -	224,560,000

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Spain - - - - - - - - - - - - - -	$ 95,285,000
Turkey - - - - - - - - - - - - -	93,480,000
Italy - - - - - - - - - - - - - -	62,200,000
Portugal - - - - - - - - - - - -	40,680,000
France - - - - - - - - - - - - -	40,100,000
Germany - - - - - - - - - - - - -	31,820,000
Miscellaneous European - - - - -	272,900,000
Japan - - - - - - - - - - - - - -	314,080,000
China - - - - - - - - - - - - - -	219,415,000
Miscellaneous Foreign - - - - - -	348,485,000
Total Foreign - - - - -	$9,671,320,000
Total India and Colonies	8,899,975,000
Total Oversea - - - - - - - - - -	$18,571,295,000

Like England, France and Germany have followed a consistent policy of extensive foreign capital commitment, but unlike the British their efforts have been devoted to a relatively limited geographical field whereas the British pound sterling has covered the commercial world. It is interesting to note in this connection that of the 10,000 securities listed on the London Stock Exchange, fully 50% are of foreign origin. This employment of Old World funds in the less developed portions of the earth has, from the very first, been exceedingly profitable to both parties concerned.

When, in 1914, the Great War came the financial balance of the entire world was upset. All was changed. In this time of acute financial stress the foreign investment policy of England proved its soundness. To finance the conflict England made extensive use of her American investments in purchasing war materials. In the five years beginning August 2, 1914, the established order of centuries was unmade, and today the world sits back amazed, still hardly comprehending.

The late Allied Nations now owe the United States roughly twelve billions of dollars. The nations of Europe are borrowing nations. It will be years before England will be able to make large external loans. America is now in possession of at least one third of the total gold supply of the entire world. She is the only source of capital supply in existence, the banker of the world.

The subject of foreign investment is an all-inclusive one. National policy in this respect is a matter of business, economic and political consideration. In the United States it is today (perhaps unconsciously) an issue secondary to none. The subject of world peace is to a large extent a matter of international investment. The financial position of the United States in the world at large is a matter of foreign investment. The commercial supremacy of this nation depends in large measure upon our willingness to send our American dollars to every corner of the commercial world. Even into the matter of naval armament we find this question of our foreign investment policy intruding. It may well be said that at the root of every question of national or international importance today we find this problem of our extension of capital credits abroad.

It is not the purpose of this paper to discuss this question of foreign investment policy. It is the writer's belief that the United States will eventually be forced into the position of an international capitalist. This is, however, a matter of the future. Today we are faced with a different tho closely related problem, that of the American investor.

The American Investor's Problem

Prior to the year 1914 very few Americans were familiar with bonds and bond investments. America's participation in the War was financed internally thru the issue and sale to some millions of people of Liberty Bonds. From the beginning the Government deliberately set about the sale of its credit instrumentalities to the people. The immediate result was all that could have been wished. As a long time policy the attempt was to a great extent a failure. The result in which we are most interested was the creation of a nation of investors out of a people who knew and cared little about investing and investments. Some millions of people still own their Liberty and Victory Bonds, people who had never seen a bond before the War.

And many of those who have not retained these Government issues now own municipal and industrial issues.

This change in the investment field has naturally been attended with certain evils. Chief among these has been the widespread distribution of securities of questionable worth. The people obtained a little knowledge of investing at a time when yields were abnormally high. This knowledge did not, in the majority of cases, extend to the ability to analyze offerings. When interest rates fell and bond yields became correspondingly lower we found the attention of the newly created investing public directed to issues which, because of their nature, held forth the allurement of high yields. In a market of rising bond prices this can mean but one thing, a lessened security behind the investment offerings.

Among the high yield securities which found a rather ready market following the war was a wide variety of foreign bonds. These foreign securities were for the most part issues of governments, and, to a lesser extent, of governmental subdivisions. The yield from these securities was uniformally high, ranging all the way to 8 and 1/2%. This yield coupled with fact that the issues were government instrumentalities created a ready narket for the bonds and millions of dollars have been invested in them.

Many of these bond issues came from the governments, - national, state and municipal - of South America. The following are typical of many South American offerings which have been made to the general public through the press during the last twenty months.

REPUBLIC OF CHILI

25 Year, 8% Sinking Fund Gold Bonds

Total issue $10,500,000

Date of Issue November 1, 1921

Date of Maturity November 1, 1946

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REPUBLIC OF CHILI

5% Sterling Loan of 1911

Total issue £5,000,000

Maturity date 1948

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REPUBLIC OF CHILI

25 Year, Sinking Fund 8% Gold Notes

Amount of issue $24,000,000

Dated February 1, 1921

Due February 1, 1941

* * * *

UNITED STATES OF BRAZIL

$25,000,000

Twenty Year, 8%, Non-callable, External Gold Bonds

Dated June 1, 1921

Due June 1, 1941

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BRAZILIAN GOVERNMENT

5%

External Loan of 1895

Amount of issue £7,442,000

Amount outstanding £6,925,900

Due August 1, 1934

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CITY OF PORTO ALEGRE
(United States of Brazil)

$3,500,000

8% Sinking Fund Gold Bonds
(External Loan of 1921)

40 Year

Dated Dec. 1, 1921

Due Dec. 1, 1961

* * * *

REPUBLIC OF ARGENTINE

5% Sterling Loan of 1913

Amount of issue £3,111,400

Due July 1, 1947

GOVERNMENT OF THE ARGENTINE NATION

$50,000,000

Two Year 7% Treasury Notes

Dated October 1, 1921

Due October 1, 1923

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GOVERNMENT OF THE ARGENTINE NATION

Five Year 7% Gold Bonds

$27,000,000

Dated February 1, 1922

Due February 1, 1927

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CITY OF BUENOS AIRES

Loan of 1909

5%

Due 1946

* * *

It should be noted that these issues cover almost the entire investment range within their class. There are national, state and municipal issues. Issues payable in sterling and in dollars. Maturities vary from the two year notes of the Argentine Nation to the forty year bonds of the city of Porto Alegre. They are typical of the many South American issues that have been recently offered here in the United States.

The most of these bonds are probably sound investments. They are not, however, advisable comitments for the average investor. It is with the establishment of this seeming paradox that this paper is concerned.

The Investment Field

It is a difficult matter to define investment. It is much easier to tell what it is not than to say just exactly what it is. It is likely best to establish a meaning for the term by comparing it to the similar tho different conception, speculation. Investment has for its purpose the obtaining of a return for sacrifice. In investing one gives up both the possession and the management of funds for a period of time. This entails sacrifice on the part of the investor. The mathematics of finance has long recognized this principle and has provided us with formulas for determining the present value of funds which come into our possession at some later date. This difference between the present and future value of funds is called interest. We may say, then, that the prime object of the investor is to obtain from his commitment of the possession and management of funds to another, this return to be in the form of interest. Speculation differs from investment in this respect very materially. The speculator anticipates the making of a profit, not because he gives up control of funds and is therefore entitled to a return for this sacrifice, but rather thru an increase in the market value of the form which the funds have taken. In other words, the speculator believes that certain values are due to increase in the future and is willing to make a commitment in these values for the sake of benefiting from this increase in value. In as much as the chief element is thus, as we have seen, the element of time, obviously speculation has to do primarily with the assumption of risks. It is in this respect more than in all others that investment and speculation differ. Theoretically, there is no element of risk present in investment; practically, the element of risk is always there. As a result the investor receives for his commitment of funds a return for the risk assumed as well as interest. It is the relative amount of this risk present in all investments that makes the wide variation in rates and return from different investments at any given time. In as much as investment theoretically contemplates no assumption of risk, and again as in practice this risk is always present, we might say that these is no such thing as investment. Experience, however, shows that it is practically possible to reduce this risk to a minimum. While the human mind cannot in its present stage of development infallibly read the future, yet training has enabled the experienced to discount the possibilities of the future very successfully. This ability, coupled with the possibility of scientifically insuring against risk thru careful distribution of commitments, makes investing practically possible. It is necessary, however, to admit that risk is always present to a certain degree in all investments, but that true investments are those in which the element of risk is very small, has been reduced to a minimum. Thus it seems that every investor is at the same time a speculator. It is likewise true that in most speculations there is an element of sacrifice and, therefore, a characteristic of investment. The border line between investment and speculation is in many cases very vague. Practically, a given commitment may to one person be a speculation and to another an investment. This lack of a sharp line of demarkation is in accord with our previous contention that investment is difficult to define. The writer believes, however, that this comparison of investment and speculation on the basis of their chief characteristics is sufficient to show that in practice it is possible in the majority of cases to distinguish between the two. We may say, then, that investment is the commitment of the possession and the management of funds to another in the anticipation of a return in the form of interest as compensation for the sacrifice involved. It is necessary to recognize that in practice there is in all investment a certain element of risk, and that in addition to interest received the investor is entitled to a return for the degree of risk accepted. It is primary to the investment, however, that this risk element be reduced to the minimum.

The Elements of Investment

Safety

In defining investment we found that investments differ from each other chiefly in the matter of the risk involved in making the commitment. In analyzing any offering, then, it is of first importance that we determine in so far as it be possible the risk involved. Security is undoubtedly the most important of the characteristics of an investment. It is of first importance because, no matter how desirable the commitment may seem in other respects, without safety all else is of little avail.

Return

But security is not the only consideration. The purpose of all investment is the return that the investor realizes from the transaction. When one makes an investment he does so because he wishes to assure himself of a continuous, steady return. To assure himself of this he makes a commitment which contains the minimum of risk. As we have seen, this tends to make his return conform to the current interest rate. The more risk he assumes, however, the greater will be his return because of the compensation which he must have to offset the risk involved. All other things being equal the larger the return the more satisfactory the investment. But all other things are not equal and any increase in return above the rate of true interest will always be at the expense of some other desirable investment characteristic. This is the first and most fundamental of all investment principles, that high return always means risk, risk taken at the expense of security. We may say, then, that return is the second consideration in the analysis of an investment. This return should be stable, it should not vary. Such a condition is the usual corollary of security. Again, this return shall be not only steady but it should be as large as is consistent with the degree of security needed. All investors do not need an equal amount of security in their commitments. It would seem, therefore, that having satisfied himself that the return from any given offering will be stable, the next problem that must be solved is the determination of the degree of safety commensurate with the investment needs of the individual. In other words, the return from the investment must be stable and as large as the degree of safety required by the investor will permit.

Marketability

The average investor hesitates to make long time commitments. This is probably a mistake on his part. Interest rates fluctuate with the fluctuations of the business cycle. The long time investment secures the investor against losses which are liable to result from these fluctuations. If the investor had the ability and the desire to understand the money market of tomorrow it is possible that by taking advantage of these fluctuations he could actually profit thereby. The average investor has not the training or experience which makes for this ability. Again, even were he so equipped he would seldom care to give the constant study and attention which this type of investing entails. The long time commitment is the solution of this problem. The return from it is less influenced by current business conditions and the investor is saved the necessity of reinvestment with the attendant losses. It is usually desirable and frequently necessary, however, that the investor maintain his funds in a current or semi-current condition. Thus the investor argues that he cannot safely invest in these long time commitments unless they are readily marketable. It is because of this that ability to sell or liquidate the investment has come to be one of the important factors in the consideration of any investment offering. For the investor who intends to profit from his investments through the process of trading on the basis of general economic changes this factor of marketability is absolutely essential. Ability to sell is imperative if one is to make a profit in this way. It is this influence which causes many seasoned investors to stick to "listed" securities and to buy those only. For such investors marketability is, as has been said, absolutely necessary. For the average investor, likewise, marketability would always be desirable if it were not that this same marketability always costs. It is always at the expense either of safety or return, usually the later. The investor must, therefore, determine the relative value to him of these elements, always keeping in mind the fact that he cannot obtain the maximum of all in the same commitment. To the average investor the subject of marketability is of less importance than it would seem. Many investments are considered as excellent collateral for current loans by commercial banks. Frequently this characteristic of collateral value can be substituted for marketability. Tho collateral value is sometimes influenced by marketability, it is not dependent upon it. Possession of this characteristic in a high degree is not always at the sacrifice of security or yield. This fact must always be considered in analyzing securities.

Convenience

The United States is rapidly becoming a nation of investors. The World War was undoubtedly immediately responsible for this. However as a nation developes from the stages of exploitation and speculation it must of necessity settle down. Business is bound to stabilize itself and investment commitments will become the rule. As a nation of investors we shall be a nation of small investors. This means that the traditional $1,000 bond will go. Convenience in denomination is of importance to the investor today. Likewise, we have already seen that in the matter of duration of the investment there is a variety of demand. This means that the issue which is offered in several maturities will have an advantage in the investment market over those which are of uniform duration. Convenience of duration is of importance. Many of the consistent investors of today are such because of lack of knowledge of business. They seek a steady return from a commitment which involves the minimum of care and attention. Investments differ in this respect. The conservative government bond when registered as to principal and interest requires practically no attention from the individual who desires a permanent commitment. On the other hand, the real estate mortgage to be successfully handled entails constant expert supervision. Between these two extremes we find varying degrees of care and attention as characteristic of the various issues. This freedom from attention is usually accompanied by a corresponding decrease in yield. It is the natural corollary of the high degree of security which the care free investment must of necessity enjoy. In considering the matter of convenience, then, it is essential that we extend it to cover this idea of the degree of attention which the commitment will demand of its owner. To summarize, we may say that convenience to the possessor in the matters of duration, denomination and attention is an important characteristic always to be considered in investment analysis.

Appreciation

We have said that the motive in investment is the desire for a return in the form of interest. In speculation the commitment is made with expectation of an increase in the value of the funds themselves. We also stated that in speculation the element of investment is likewise invariably present. This is due to the existence of the time element. Similarly, all investment has its speculative side. This speculative constituent is secondary in that the investor is usually seeking to reduce it to the minimum consistent with circumstances. The fact remains however, that because we are dealing with an unknown future the value of the commitment is subject to fluctuation. This means the presence of the potentiality of appreciation or depreciation in every investmentbased on the possibility of change in relative values or change in knowledge of existing values. It should always be the endeavor of the investor to choose a commitment in which the chances of appreciation are better than the probabilities of depreciation. This search for an appreciation potentiality should never be carried to the point where it is inconsistent with the degree of security essential. The Possibilities of potential appreciation or depreciation are, never the less, of great importance. The reader should note that we are not referring in this paragraph to the rise or fall in the value of an investment approaching maturity, due to the fact that it was purchased at a discount or a premium.

An analysis of an investment contemplates an investigation of the following five characteristics: safety, return, marketability, convenience and appreciation. These five characteristics are here given in the order of their relative importance. No one of them may ever be neglected. They will be the basis of the investigation which this paper proposes to make.

How Investments Differ From Each Other

No two investments are alike. They differ from each other chiefly on the basis of the five characteristics which we have just discussed. Within the field of investment as we have defined it we find all degrees of security, a wide range of return, investments possessing to a marked degree marketability and those almost devoid of it. Denominations and durations vary, some investments require constant attention while others are practically free from it, and, finally, due to their very nature, certain commitments seem likely to become more valuable, while in others there is little possibility of this, some even showing a tendency to become less worthy. United States government bonds are the accepted obligations of the greatest nation in the world. If our national government should become unable or unwilling to levy taxes to meet its obligations, then that quality which we speak of as credit will have passed out of existence. However safe such a commitment in government credit may be, it does not follow that all government securities are devoid of risk. The World War conditions brought about a more or less temporary financial embarrassment on the part of many nations. This strained condition in several cases resulted in inability to make payments of interest and principal due on funded obligations. Prior to the World War default in such payment was not unknown. Colombia, Ecuador, Paraguay, Peru, Venezuela, Mexico, Costa Rica, Guatemala, Honduras, Liberia, Santo Domingo, Turkey and Greece had all defaulted in payment of obligations to foreign security holders. Thus in this most conservative class of investments, national government obligations, we see a great variation in safety. In the less conservative classes, as municipals, rail roads, public utilities, industrials etc., we find an even wider variation.

Likewise, investments differ widely as to yield. United States ~~[illegible]~~ Federal Farm Loan Bonds, declared by the act which created them "instrumentalities of the Government of the United States", are selling to yield 4¼%.

At the same time 8% bonds of the Republic of Peru due in 1932 are selling at 98.50 which makes their yield if held to maturity approximately 8.20%. These are both national government issues. In other fields, as for instance the industrials, we find securities which are paying returns at an even higher rate. It is the writer's belief, however, that at the present time 8 and 1/4% is about the maximum return which can be obtained from an investment commitment. This is of course the extreme. Beyond this point the risk involved becomes so great that the commitment is no longer of an investment nature, even for the most experienced and seasoned investor, and should be classed as a speculation. Thus we find that even in the most conservative class of securities there is a wide variation in yield, ranging all the way from the lowest acceptable return to a yield so large that it only just falls within the conception of investment interest.

Just as investments vary as to security and yield so there is a wide diversity among them in matters of marketability and collateral value. This is in itself a rather extensive subject and will not be exhausted here. There are two types of influences effecting marketability. The first of these we might call natural. We mean by that differences in the nature of the investments themselves, such as security, amount of the issue, where and to whom marketed, etc. The other type of influence is external in its nature and might be called artificial. Markets for certain classes of securities are frequently created by law. The use of certain United States Government issues as collateral for bank note issue is a good example. The law restricts the investments of savings banks, trust companies and the like, and thereby creates a market for certain classes of securities. Again, the existing tax situation, under which the return from some securities is subject to tax while others are exempt or free from taxation, creates artificial markets. It is such influences as these which we speak of as artificial. It is essential in this connection that we mention the effect of listing securities on the exchanges. Listing in itself does not create marketability, it only facilitates it. Not all listed securities are active and not all active securities are listed. However the exchange does give publicity and tends to increase marketability. This short treatment of the subject of marketability and collateral value is sufficient to indicate the fact that investments do differ very greatly in this important respect.

A brief study of the South American investment offerings included in the introduction to this paper will be sufficient to show that in the matter of convenience of denomination and duration there is a large variation.

Bond denominations today range all the way from the $50 "baby bond" to the infrequent $100,000 denomination. The $1,000 and $500 certificates are most common. An illustration of the variation in necessary attention has already been given in the comparison of the United States Government registered bond and the real estate mortgage investment. To many of the smaller investors this question is of importance second only to security. To all investors it is a matter of considerable import.

Variation in appreciation potentialities ia as great as in any of the characteristics of the investment. Some investments, as for instance real estate mortgages, cannot because of their very nature appreciate in this way to any material extent. On the contrary they are frequently subject to rather dangerous depreciation. As a rule it is the securities of a more speculative nature that are liable to appreciate although this is not always true. Any security to appreciate in this way must possess the likelihood of an extension of its market in the future, or be of such a nature that changes in the general economic conditions will effect it materially. This is, of course, comparable to saying that the investment is of a speculative nature. It is possible, however, to find securities that possess relatively little risk and which have at the same time a material likelihood of future value increase. To the average investor potential appreciation is of least importance in proportion to the other characteristics discussed here. Potential appreciation in investment can, however, be made the basis of considerable profit to the initiated and in all cases the potentiality of appreciation should equal or outweigh the chances of depreciation.

Kinds of Investors and Their Needs

Just as no two investments are alike so do investors differ from each other in like respects, and, if it be possible, to even greater extent. The requirements of the investor differ in exactly the same ways as do the characteristics of investment - security, return, marketability, convenience and chance of appreciation. These needs are determined by many conditions. Chief among them are wealth, income, amount of invested funds, occupation, age, training and experience.

The retiring vice-president and general manager of a large interurban traction company would be unwise to adopt the investment plan that one would recommend for the widow of a clergyman with a recently acquired $10,000 insurance check. Likewise the investment needs of the salaried professor are totally unlike those of the successful business man whose business no longer needs a turning back of its surplus earnings for the creation of new facilities, extensions, betterments or the like. It is obvious that in the case of the widow the one prime consideration is safety. All other factors are secondary to this one. Stability of return is of far greater importance than the amount of this return. Yet it would be foolish on the part of such an investor to seek a commitment the return from which would be exempt from income taxation. The same is to a great extent true of the investment of the college professor. There is a certain difference in the investment needs of the two for the college professor is usually better fitted to provide for the needs of his dependents from current earnings than is the widow of a country clergyman. And so if we analyze at all carefully we will find that the investment needs of the four individuals mentioned above are all different. No two of them are alike as to the degree of security best fitted to his needs. Some of them must give considerable attention to the effects of taxation on income, in some cases it is far more satisfactory that the income be small and regular than large when the increase in yield would be accompanied by a corresponding falling off either in regularity of income or security of the principal commitment. To the active business man marketability and collateral value will be of relatively greater importance than they will be to either the widow or the retired manager. Again, the retired business man might be willing and able to give his investments more attention than can the active business man. Convenience in denomination is one of the most essential factors in the determination of the college professor's investments. The selection of securities which have an exceptional chance to appreciate in value is a matter which requires much technical knowledge and experience. There is a wide difference in the relative abilities of our several examples in this respect.

Such differences are characteristic of all investors. The one needs an ultra conservative investment while the other is well fitted by training and experience to take the risks incident to greater return. Marketability, convenience and potentiality of appreciation likewise are seldom of equal importance to different investors. The determination of the investment needs of the individual is of no less importance than the selection of the proper commitment. The science of investing consists of, first, the determination of the investment needs of the individual; second, the analysis of investment securities; and third, the selection of that security which will best fit the needs of the individual investor.

The treatment of our present subject, "South American Securities as Desirable Investments for the Average American Investor" will require the treatment of all three phases of the problem - determination of the investment needs of the average American investor, analysis of South American securities as we find them in our North American markets, and finally the determination of the extent to which these security offerings answer the needs of the type of investor under consideration.

Principles of Investing

What are the needs of the average American investor? What do we mean by an "average" American investor anyway? We have said that to a great extent the investment needs of an individual are determined by such factors as wealth, income, amount of invested funds, occupation, age, training and experience. A representative and fairly extensive investigation recently completed by the writer will throw some light on this subject. The figures given below are the results of the analysis of the clientele of bond houses and banks dealing in investment securities. One large organization similar to the building and loan association is included. No figures were obtained from savings banks. One qualifying statement concerning the results obtained must be made. The table does not fairly take into account conditions in the large eastern centers of population. This is not as great a discrepancy as would at first appear. The investors of these metropolitan centers are relatively large investors and, measured in dollars, they form a considerable element in the bond buying power of the nation. Measured in terms of numbers of investors, however, these centers lose much of their relative importance. It is with the latter standard that we are chiefly interested, this being the best basis for judging the average investor of today, the normal American investor of tomorrow. As a nation of investors we are young, very young, young in our investing experience, young in the amounts of our commitments, young in our investing power. Tomorrow it will be different but today our bond buying power is the power of numbers. The great American bond houses, those of national scope and repute, are today cultivating the small investor. There is little immediate profit in such a policy for it costs as much or more to sell a $50 or $500 bond as it does a $1,000 or $10,000 security. The soundness of the policy is to be found in their vision of tomorrow, a tomorrow not so very far off. The small buyers of today are the larger investors of tomorrow. It is with this class that we, as well as the bond houses are chiefly concerned. They are the "average" American investors as the following figures seem well to indicate.

Table of Bond House Sales for One Month
To Indicate What is Meant by an Average Investor

Number of sales for one month *#		Total amount of sales one month#	Average sale	Average holding per customer **
1	1,491	$2,161,950	$1,450	$4,600
2	734	440,400	600	2,200
3	326	619,400	1,900	5,850
4	455	364,000	800	3,320
5	2,877	920,640	320	800
Total	5,883	4,506,390	766	3,354 ***

* Exclusive of banks
\# Exact figures not given here. These are similar multiples of exact figures obtained.
** For customers the amount of whose true investment holdings exclusive of real estate, active business etc. is known.
*** Inaccurate, not weighted for number of customers

The great mass of American investors are, then, in the first place, inexperienced investors, particularly inexperienced in bond investment. The volume of their individual investments is not large, the separate commitments are small. This must of necessity be true because of their relatively limited wealth and restricted income. Their investments represent in the fullest sense of the word their savings. The average American investor has had no training along investment lines and almost as little experience. It would seem then that the type of investment best suited to his purpose is the ultra conservative investment. Before arriving at such a conclusion we must take into consideration a certain American characteristic which is as sure to assert itself in our national investment policies as it has in all our other business life. Here in America the developmental days of exploitation and speculation are but lately gone. The spirit of the pioneer is still in the blood of the American citizen. The average American would much rather speculate than invest. It is only in the last decade that we have begun to stabilize, to recognize the importance of the investment principle, and it was only thru the financing of the World War that we came generally to know the bond as a common form of investment security.

This spirit of adventure, the relish of the taste of risk, this willingness to take a chance, must be considered in the determination of our average investor's needs. It will probably prohibit the ultra conservative course in the majority of cases. It must not, however, be allowed to dominate. The key to the situation probably lies in the application of certain well worked out principles of investing to the needs of the particular individual. The result of the proper application of these principles will be an investment plan which, if carried out by the individual, will give him a safe and sound investment with enough of the element of risk present to satisfy his desire to take a chance and realize a good return, a commitment which is not of the ultra conservative, low yield type, yet one which is in no respect open to question as to its sterling worth.

So much for the nature of the beast and his appetite. Let us now consider those principles of investing which we mentioned above. Andrew Carnegie in his "The Empire of Business" advises the young man to put all his eggs in one basket and then to watch that basket. It is unquestionably easier to watch and keep informed concerning one investment than it is to know a dozen but it is far from sound policy to follow such a course. The element of risk is always present in investment. Intelligent investing requires the reduction of this risk to the minimum. There is no more effective method of accomplishing this end than the distribution or spreading out of the risk. This method has the additional advantage of bringing in the greatest return possible with the least degree of risk. In other words we might say that the reduction of risk thru the application of the diversification principle differs from all other methods of increasing security in that it is not accompanied by a corresponding reduction in the return to the investor. We will investigate the application of the diversification principle for risk reduction in investing somewhat in detail.

We have seen that bonds differ from one another greatly in the degree of security they possess. When the risk involved becomes so great that the return for the assumption of this risk exceeds the true interest return, the commitment is no longer an investment but a speculation. This is because the chief incentive for the commitment is no longer a return in the form of interest, but rather a return due to an increase in the original value of the principal. On the basis of risk involved it is, therefore, possible to divide all true investments into several classes. Let us set up five such classes. Further, let us assume that the return from all investments is accurately indicative of the security behind the investment. If the present rate of true interest is 4% then we might designate each of our five classes on the basis of yield, as indicative of security, by the headings 4%, 5%, 6%, 7% and 8%. We are now ready to apply our diversification principle.

The possibility of reducing risk through distribution is based upon the mathematical theory of probabilities. We are all familiar with its application in the fields of life and property insurance. It can be applied to the investment field just as readily and as accurately. The insurance companies long ago recognized the soundness of this policy and applied it in their investing. Distribution when applied to investment should be along several lines. First, it is quite evident that if we put all our eggs in one basket, even tho we watch that basket, our chances for loss are greater than they would be if we were to have and watch several commitments rather than one. Investments should be distributed geographically. Although certain types of conditions do effect the country as a whole at the one time, still much of our changing condition is local in nature. Geographical distribution will reduce the risk incident to this condition very materially. There are many different kinds of investments: public securities, railroad securities, public utilities, industrials etc. We should make a distribution as between these various classes. Then, within each of these different fields there is great variety of possible commitments. In the public security field we have national government, state, county, city and tax district bonds. Among the industrials we have an even greater diversity. The same is true of each of the above classes. There is another type of diversification fully as important as any of those already mentioned. It is difficult to find two investments within a class or field that are alike in matter of security. It is just as essential that each individual security be investigated when diversification is practiced as it is when the investor holds but one single security. In fact, the tendency to slight this individual investigation when distribution is practiced is the one great drawback of the diversification scheme. No conceivable amount of scientific distribution can ever possibly be made to take the place of intensive investigation and analysis of the individual securities used in the diversification plan. In fact, if the individual investigation be considerably slighted it is quite possible that the spreading of the investment will work to the detriment of the investor and to an ultimate loss. Distribution of risk should always be a consideration and practice that supplements intensive security analysis. The difference in security between similar investments is the basis of the type of diversification which we now have under consideration. When we build a house we start at the foundation. This is the most solid, the heaviest, the most secure portion of the entire structure. If the foundation be properly and solidly constructed it is quite practical and desirable to employ less heavy, less secure construction in the upper portion of the structure. This does not mean that the upper work is of less sterling construction or that the security of the whole has been weakened. As a matter of fact, the more solid our foundation the better the final result no matter what type of superstructure we employ. Exactly the same principle is applicable in investing. Let us make our diversification as to types of investments, practice geographical distribution among these types, and then finally let us diversify our commitments on the basis of the amount of security possessed by each. The result of this third type of distribution will be a well worthwhile increase in return. The individual who requires a certain degree of security in his investments is foolish to invest in bonds of that degree of security only. He should first provide himself with a foundation of the very best, the most conservative securities. The return from these bonds will probably be less than the return which he feels that he should receive. However, this foundation of conservative commitments will enable him to carry securities which are of the more speculative type than he otherwise could. In brief, distributing his investments on the basis of security the investor will be able to obtain a degree of security consistent with his needs, and which will return him a greater yield than if he confined himself to the purchase of bonds which individually answer his purpose in the matter of security of principal. In connection with this form of investing plan it is necessary to point out a few cautions. In the first place, the investor must always purchase his more conservative securities first and the less conservative ones only when he has laid a sufficient conservative foundation. The natural tendency will be quite the opposite. This means that a well worked out plan must be definitely adopted and that this precaution must be incorporated in it. Again, the fact that one has laid a foundation for the obtaining of a greater yield does not mean that the investor can then purchase on the basis of yield alone. Suppose we take the five classes of investments which we created on the basis of security, 4%, 5%, 6%, 7% and 8%. Let us say that the average degree of security demanded by an investor is represented by the 5% yield. If this investor had purchased \$2,000 of United States Government obligations which return him an average yield of 4% it is obvious that he could buy \$2,000 worth of 6% securities and yet maintain a 5% degree of security. His 4% bonds would not permit him to invest to any amount in the 8% class. Further, tho he might buy a small amount of this class of security it is hardly likely that it would be advisable for him to do so. As investments depart from the ultra conservative class and become more speculative in nature, it becomes increasingly difficult to analyze and evaluate them. And, as we have tried to emphasize already, this individual minute examination and evaluation is the very basis of the success of the diversification plan. If we neglect this consideration we have no basis whatsoever for a true security diversification. It would seem then that our investor of the 5% type should confine his purchases to the 4%, 5%, and 6% types of securities. If he goes into the 7% field at all it must only be to a limited extent, and it would be the exceptionally well versed and experienced investor, indeed, who could hope to enter the 8% field. One more remark in this connection. It is obvious that the further away from the conservative type the investor gets in his process of security distribution the larger will be his proportion of ultra conservative commitments. This fact has a tendency to curb the seeming yield advantages to be gained by entering the more speculative field. In practice it would seem, then, that the yield advantage apparently gained by our 5% investor, if he were to go into the 8% field, would be more than offset. This argument, in connection with the increased difficulties of analysis, will lead us to recommend the 4%, 5% and 6% fields, with perhaps an occasional lesser foray into the 7% class, to the 5% investor who would enjoy the maximum of return with a degree of security consistent with his investment requirements.

And this is about the position of the average American investor. His experience and ability are not great. Our figures show us that his individual and total commitments are not large. His earnings are small. Thus it is rather obvious that he is restricted in his ability to absorb the securities offered him which have the attractive yields. His first step must be to build up for himself a sound investment foundation consisting of the most conservative types of securities, taking into consideration, of course, his position as regards taxation, market needs, etc. Then, having done that, he can venture into the more difficult, less secure, higher yield classes. But only after he has established for himself a sound foundation, and then only to the extent that he is capable thru experience and training to do so. The 8% security class is not for the average American investor. A net return of from 5% to 5 and 1/2% is excellent indeed. The writer believes that it is possible to obtain such a return without the sacrifice of security. But that is another story.

Classification of Investments

There are many bases of investment classification. The simplest of these, and the one which will best serve our present purpose, is probably classification according to the nature of the security behind the investment. According to this standard there are three classes of investments: investments secured by a specific lien against real property, investments secured by a pledge of collateral, and investments secured by the general credit of the obligor. The first are called mortage bonds or mortgages, the second collateral securities and the third debentures. In analyzing an investment to determine its worth it is necessary that we recognize this classification as the nature of our investigation will to a certain extent be determined by it. In the case of bonds secured by a pledge of specific property the valuation of the security consists of an evaluation of the property pledged and the determination of the nature and priority of the lien which our investment holds against it. In the case of collateral securities the investor invariably holds a first lien on the collateral, and the problem is the evaluation of the securities pledged as collateral. The evaluation of this collateral may in itself involve an investigation of commitments of all three types: mortgage, collateral and debenture. Analysis of the third type, the debenture, involves the evaluation of all the assets of the obligor and the determination of the total liabilities constituting a lien against these assets prior to that of the security in question. Debentures are unsecured promises to pay.

It is a mistake to judge the security of a specific bond, or of classes of bonds, on the basis of this classification. For example, it would seem that the unsecured promise of an obligor would be less valuable than a promise secured by the pledge of specific tangible property. Frequently this is the case. Yet, quite as frequently this is not true. The most secure, the ultra conservative investments of the day, government bonds of the united States of America, are pure debentures. They are unsecured promises of the government to pay and in event of default there is neither power nor court that can force payment. Other debentures have sometimes proven to be perfectly worthless. This truth is fundamental to successful investing. Every security must stand on its own merits. Because a bond is a first mortgage bond it is not necessarily superior to another which enjoys but a second lien, or another which has no specific lien at all. Each must be investigated to determine its individual merits.

Classification according to the nature of the security is not usually taken as a basis for the investigation of investment analysis. It is more convenient for this purpose to classify securities according to the nature of the obligor. When divided in this way we find that investments fall within the following groups : government bonds of the United States, securities of the political subdivisions, i.e. state, county and city, public utility securities, industrials and foreign issues. On the basis of this classification we will proceed to our investigation of analysis of the various kinds of investment securities. The first class to be considered will be United States Government bonds.

Analysis of Civil Obligations

National Government Bonds

Generally speaking, government borrowings are for one of three purposes. They are for internal development, national defense emergency or for the financing of normal current governmental needs. In the consideration of government borrowings it must be recognized that the obligations thus incurred must be discharged chiefly through the levy of taxes. This has a direct bearing upon the three types of government borrowings mentioned above.

A national government frequently feels that it is justified in borrowing for purposes of internal development. It expects that the facilities created, even tho they in themselves be non-self-supporting, will so increase the nation's productiveness that the resultant increase in tax burden will be more than offset by the increase in the national income. From the economic standpoint it would seem that government securities, the funds obtained from which are judiciously used for such development, would be superior to either of the other two types of government securities. Certain it is that, all other things being equal, the increase in ability to levy and collect taxes, which results from such economic use of government borrowings, does result in an increase in the stability of government finances and a corresponding increase in security to the investor. In any analytical consideration of this point, it is therefore necessary that the investigator determine if possible whether or not the expenditures are to be made for a purpose which will actually result in an increased national productiveness, and that this increase will be proportionate to the increased obligation both in the matter of amount and time. In other words, while it may frequently be desirable for a nation to borrow for this purpose, it should always be reasonably certain that it will be able to repay the obligation when it is due.

Following this line of reasoning, it might seem that governmental borrowings for purposes of national defense would not as a class rank as high as those just discussed. A careful analysis of the situation will, however, tend to break down such an assumption. It is not our province here to discuss the economic justification of wars, the wisdom or expediency of their perpetration. It is sufficient to call attention to the fact that without national security all values tend to fade. Indeed, it is rather difficult (at least painful) to say that the billions of dollars borrowed by the United States from its citizens during the World War were not used for productive purposes. One must admit that France is less able to pay her war obligations today than she would have been had these war spent funds been employed in internal construction rather than in the destruction of Flanders Fields or Bruges Bund. And yet, the ultra conservative opportunity of the present day is without doubt the Liberty Bond. We doubt that the Panama Canal Loans, placed on an equal footing as regards tax position, fiduciary use, maturity and denomination, would sell at a higher price in the investment market. Such is the power of faith.

The third type of government securities, borrowings to finance current needs, deserves a somewhat different treatment. Inability to pay ordinary current expenses out of regular current income is an evidence of grave weakness in the national structure. We do not here refer to the short time open market borrowings of a few months in anticipation of current revenues to which governments are sometimes forced. Even this, when common practice on the part of a government, should be decried. It is of much less vital concern, however, than long time borrowings for current needs, the "funding" of current obligations. Particularly is this true when the loans are "floated" externally. The financial weakness of a government forced to this expedient cannot but be reflected in a corresponding weakness in its security issues. These borrowings must be paid out of the proceeds of taxation. Their existence is in itself an admission of lack of taxing strength. It is questionable that the funds realized from the sale of such securities will eventually enhance the ability to levy and collect taxes. Experience shows that, while governments have in this way sometimes been able to tide themselves over critical situations, frequently the contrary has been the case, and that the floating of such loans was a danger signal as regards the nation's financial strength which the investor should have recognized and heeded.

It would seem rather essential, then, that in the analysis of a governmental security we investigate the conditions which give rise to the borrowings, and the purpose for which the funds are used. This analysis is of greater importance in the evaluation of security issues of governments whose political history shows evidence of instability or corruption.

Government bonds are, almost without exception, debentures, the unsecured promise of a sovereign government to pay. The sovereign nature of the obligor, which makes impossible legal action in event of default, makes the good faith or willingness of the obligor to pay the chief element of security. The best means of evaluating this factor is by historical investigation. The past is the best barometer of the future, and a careful investigation of such factors as the people themselves - their characteristics, customs, laws and education - political integrity, financial history, banking and currency systems, etc., will give a satisfactory basis for judging what the nation's attitude toward its financial obligations may be expected to be tomorrow.

"Where there's a will there's a way." Any sovereign government that has the will to pay can usually find a way. However, occasions have occurred when the finest of integrity was not sufficient to "draw blood from the turnip". Even tho a nation may levy taxes, and by royal bull insist upon their payment, if there is no earning power there will be no income, and if there be no income taxation will produce neither gold nor silver for the governmental coffers. In addition to an investigation of the good faith of a government, we must, therefore, consider its ability to pay, the resources and the income of its people. Natural resources, industry, transportation, communication, foreign trade will, when considered in connection with population, give us a very good idea of this situation. When buying securities of the home government, the investor, because of his familiarity with the situation, is very likely to pay little attention to the details of this factor. Capital sent abroad for governmental use depends in good part for its safety upon just these considerations. Analysis of a nation's ability to pay is second only to the nation's willingness to pay in the determination of the investment worth of its securities.

Obligations of Political Subdivisions

Obligations of political subdivisions, while in the main resembling those of national governments, differ from them in some respects. When the national government is composed of a union of states or departments which to some extent retain their sovereign nature, the position of the state or department obligations differs from that of the national government only in the matter of geographical extent. Some state obligations suffer along these lines as they obviously lack in amount of resources and income as compared to the national body. When placed on a comparative basis of population and debt they frequently stand in a much better light. This is especially true when the obligations of some of our own states are brought in contrast with the national obligations of the lesser sovereign powers.

Where the governmental subdivision retains its sovereign power the investigation will differ from that of the national government only in that it is more important in this case to consider not only the state contracted debt but likewise the tax burden borne by the state's population and resources, which originates with the national government and the included municipalities. The chief factor of safety to the investor is the good faith of the state. Ability to pay is secondary only to willingness.

In case the political subdivision issuing securities is not possessed of sovereign power, as in the case of our own townships and counties and the majority of foreign political subdivisions, the lack of sovereignty operates to change the elements of investment security very materially. The issuing authority is under these conditions usually subject to suit and judgment. This does not ordinarily extend to foreclosure as the obligations are in the majority of cases debentures. Because of this condition the investor is in a somewhat better position in event of default on the part of the obligor, and ability to pay thus becomes a more important consideration from the standpoint of the investor than willingness to pay. The investigation of the obligor's ability to pay takes much the same form as in the case of national obligations. In this case the effects of national and municipal taxation on ability to pay is very important. It is very difficult to obtain information concerning these conditions, and frequently the form in which the information is obtainable makes a satisfactory evaluation of the figures practically impossible.

When the funds for paying interest and principal are obtained chiefly through the use of the general property tax, a common procedure, lack of uniformity in methods of valuation and assessment make accurate results very difficult. It must be remembered in this connection however that the seemingly insurmountable difficulty here encountered is somewhat relieved, due to the fact that the assessed valuation, regardless of the basis on which the property is assessed, is the basis used for taxing. However, lack of uniformity in methods of assessment do make satisfactory comparisons very difficult and render more or less uncertain any estimates we may make as to ability on the part of the obligor to pay.

Another important consideration in the analysis of a public obligation when the obligor is not possessed of sovereign rights is the determination of the legality or at least of the validity of the issue. Frequently rather complicated safeguards have been thrown around the incurring of debt on the part of political subdivisions. Usually, when, thru haste or lack of adequate legal advice in the issuance of securities, such public obligations are issued in an illegal manner the innocent holder of such obligations is protected thru the device of declaring the obligations valid tho illegal. Such acceptance on the part of the obligor fully protects the investor. However, bonds illegally issued are not always declared valid. Experience shows that when political subdivisions have defaulted and repudiated, the reason given and the basis of repudiation has invariably been illegality of the issue.

This being the case it is obvious that, even tho of less importance in the case of public obligations of non-sovereign powers, willingness and good faith on the part of the obligor is of rather great importance. It is the exceptional bond issue indeed which is possessed of no legal flaw which in case of great stress could be made the basis of repudiation on grounds of illegality of issue. The analysis and determination of the good faith of the obligor will in this case proceed along practically the same lines as those indicated for sovereign powers.

The analysis of city bonds is a problem in some respects more difficult and in other ways simpler of solution than the analysis of the obligations of more extensive political subdivisions. The financial affairs of a municipality are frequently more involved due to the fact that they issue securities for a wide variety of purposes. Some of these enterprises are self-supporting, and in the financial statement their indebtedness is deducted because of this fact, in arriving at the net debt of the municipality. Such deductions must, however, always be closely scrutinized, as frequently municipal enterprises which are in theory self-supporting are in practice far from it. The present day condition of municipally owned and operated, or municipally owned and leased, street railways is a good example. Again, city bond issues are more likely to be for questionable purposes. Also, the growing tendency toward the tax district for purposes of sectional improvement within the city involves the condition of a city's finances. On the other hand, there is better opportunity for evaluating a city's ability to pay because of the existence of more uniform methods of valuation and assessment within a city. When it comes to comparing one city with another on this basis we experience much of the same difficulty that we found before. This is because of the fact that while there is usually uniformity of assessment within a city this in no respect guarantees uniformity between cities. As a rule, city finances are handled on a more business like basis than are the financial affairs of some rural community. Their financial machinery is better organized and manned, more efficient. This self same efficiency has been known to result in questionable practices such as manipulation of sinking funds and the like. Cities as a class are stable units economically, but the spirit of civic loyalty so characteristic of city populations is liable to lead to undue expansion and excessive indebtedness. And then cities do come and go. Particularly is this true of an undeveloped country whose existence is due to the extractive exploitation of some natural resource. The obligations of municipalities are usually debenture bonds. The interest and principal are payable from taxation. The chief element of security is ability to pay. This ability is based upon the resources and income of the city's people. The second important factor in judging security is the legality of the issue. Validity may be allowed to take the place of this legality. Finally, the good faith of the obligor must be unquestionable.

The history of public obligations reveals them as a conservative class of investments with a record which excels all other classes in the matter of security. This same record will, never the less, show that public obligations have been repudiated. National government bonds, state and department obligations, municipal bonds, all three types of investment securities have known cases of repudiation. These repudiations have been due to one of two causes, either military defeat in the case of sovereign governments or over expansion in internal development. The basis is most frequently illegality. The mere fact that a security is a government, state or municipal obligation does not mean that it is either a safe or a good investment. As a class the public obligation is secure. As individual issues within the class conservative policy would hold each issue questionable until investigation proved it to be otherwise. Certainly this is true of obligations originating in other countries.

Concerning the yield and marketability of public securities little need be said. Just in proportion as public bonds are secure their income tends to be stable. This is, of course, due to the fact that the interest is payable thru the levy and collection of taxes. "Nothing is surer than death and taxes." Time has proven the accuracy of this statement. Not only is the income from public obligations reasonably stable, it is also of fairly satisfactory amount. Particularly will this be found true when considered in connection with security and tax position. The income from public issues is generally free from taxation. This factor is not of the importance to the average American investor that current literature on the subject would indicate. It is true that the tax exemption feature of the public bond is of great importance to the large investor, but to the average American investor this feature is relatively unimportant. As to marketability, public securities as a class are unexcelled. However, just as the individual issues vary in security so also are they different in this respect.

There are many peculiar types of public obligations which we shall not consider here. It is not that many of these securities such as tax district bonds, municipal irrigation issues, municipal utility issues, etc., are unimportant or unworthy but rather the fact that lack of space limits us somewhat and that these particular types are less often met with in the investment field. Further, the thoughtful application of principles applicable to the more standard types will give very satisfactory results when applied to the specialty field. And finally, the South American security offerings which are finding their way into the North American investment market are of the classes which have been or will be discussed here.

Private Obligations

Before we take up a detailed consideration of the obligations of private corporations it will be well to note how, as a class, they differ from the public obligations which we have just been discussing. Public securities are the obligations of political corporations, associations of all the people for all the people. Private corporations are bodies, created by the state, whose purpose is the furthering of private ends. This difference is fundamental and has an effect upon the differences which we are about to discuss. The purposes for which governments may borrow are relatively limited. While it is essential that we investigate the purposes for which governmental borrowed funds are to be used this becomes of much greater importance in the case of the private corporation. The chief element of security in the liquidation of private corporations is the properties which have been accumulated through its security issues. As a matter of fact, the limited liability of the corporation makes this the only source of security. The investigation of the purpose to which the proceeds of the loan are to be put is therefore of prime importance.

Again, the nature of the product and the demand for it are elements of difference between public and private corporations. The market or demand for the service of the political corporation is assured, is universal. In the case of the private corporation the market is problematical. A corporation producing a necessity for general consumption is in a very advantageous position as compared to the business producing a highly specialized nonessential which is to be used in further processes of production.

The very character of the obligations of each of these two types of corporations is different. In the case of the public securities we have seen that the obligations are invariably debentures. With private corporations this is not true. It is in the field of private corporation finance that we find that great variety of instruments of finance which so complicates the situation both for the financier and the investor. These securities are in great part possessed of a lien on real property, tho there is an increasing tendency to issue securities of the debenture class which are secured by the general credit of the obligor. Also, there are those many types of instruments which represent ownership. These are entirely peculiar to the field of private finance.

These, and other differences, make for a difference in the risk element that is to be found in both types of securities. As a rule, private obligations are secured by a lien, either specific or general, direct or indirect, upon property. Public obligations are secured by the good faith and ability of the obligor to pay. There are many elements of risk peculiar to each of them. Any analysis of the investment worth of securities must take this into consideration. Generally speaking, there are more risks connected with private securities. It is, however, usually easier to anticipate and analyze these risks than in the case of public securities.

This variation in risk is, of course, reflected in the return that is realized. Public obligations are generally considered more conservative. The return from them is correspondingly lower than the return from private obligations.

Conversely, the possible return from private securities, because of their greater possibilities of real appreciation, is greater. Experience shows that tho the possibility of return is greater in the case of private securities, the probability of a larger return is cut down by the losses incidental to added risk to the point where, over a period of years, the actual return is likely to be greater for the more conservative public security. In other words, when a high type of safety is essential to an investor the public security commitment is preferable both in point of security and return.

In considering the elements of safety or security behind a private obligation it is necessary that we consider the problem in two lights, security in liquidation and security in the going concern. We have said that the security of the investor in event of liquidation is dependent upon the amount of the physical assets of the corporation, and the nature and priority of the lien which the investor holds against these assets. This condition is best revealed by the balance sheet with, perhaps, certain supporting schedules, such as a detailed statement of the nature and characteristics of the various funded obligations which the corporation has outstanding. The chief consideration in this connection is to make sure that the figures given in the statement represent market values under conditions of forced liquidation. They seldom do this. It then becomes necessary that the investor reappraise these assets to show their worth under such circumstances. In this way it may be possible to arrive at a fairly accurate understanding of the position of the investor in case the corporation becomes insolvent and the investor has to look to the liquidated assets for reimbursement.

In the going concern the basis of security is entirely different. The ability of the corporation to meet its interest, dividend and principal repayment obligations is dependent entirely upon its earnings. An analysis of safety for such a concern will therefore be a study of the future producing ability of the business as an economic unit. In this respect the future is best judged by a consideration of the present and the past. This information is to be had from such sources as comparative balance sheets, the profit and loss statement, the comparative record of dividends earned and paid, and various ratios to show managerial efficiency.

The balance sheet does have a certain value in the determination of future earning capacity. It gives a cross section of the properties and obligations of the business. This picture will enable the investigator to compare one business with another on the basis of its equipment as a producing unit. It will also reveal the relative efficiency of the financial plan of the business. An industry saddled with a heavy load of funded debt is of course at a disadvantage as a profit maker. The availability of earnings for the investor will be shown to a certain extent. The balance sheet when made up to show comparisons over a period of years will also give an idea of the past growth of the business. To a certain extent this may be taken as an indication of the future.

Of far greater importance in the determining of earning power is the profit and loss statement, or the income account as it is sometimes called. This is particularly true when it is made up on a comparative basis to show income, expenditures and profits or losses over a period of years. The income account gives an abbreviated statement of the conduct of the business for the period which it represents. When so arranged that one period can be compared with another the investigator can read between the lines and obtain a very good oppinion as to the earning power, past and probable, and likewise a very accurate estimate of the efficiency of the management, and the probable outcome of the managerial policies in their relation to the investor.

There are two obstacles to the use of these reports by the average investor. The analysis of corporation statements requires rather more facility in the application of accounting principles than the average investor possesses.

Even tho he may have some knowledge of accounting as a science, the analysis and digest of such statements for the purposes of the investor necessitate interpretations not usually possible for the general accountant. This is because of the difference in point of view. The second difficulty arises out of the lack of uniformity both in the reports themselves and in the methods of producing them. Accounting is not as yet stabilized to the extent of uniform terms and meanings for these same terms. There is still a great divergence in concepts and theories. Naturally it is impossible to obtain uniform results with such a lack of uniformity in method. In this country the Interstate Commerce Commission has prescribed and put into use a uniform accounting system for interstate railroads. This has eliminated the second difficulty in the analysis of railroad reports. In this particular case, however, the intricacy of the business and the necessary complication in its accounts result in an increase in the first difficulty here mentioned. As in the case of the Interstate Commerce Commission and the railroads, the Public Utility Commissions of the various states have now rather commonly prescribed uniform accounting methods for the utilities subject to their jurisdiction. While these systems are not absolutely uniform, as between states, the benefits to be gained from general uniformity have been recognized to the extent that there has been a tendency on the part of the states to make their several systems more or less uniform. The situation with the public utilities is therefore fairly satisfactory. With the other industrials there is no comparable situation to be found. Prior to the passage of the Federal Income Tax Law in 1913 it seems likely that a large percentage of the businesses in this country had no adequate accounting system of any description. This law required such specific information from the business man that it became absolutely essential for him to maintain more or less adequate records, and from the standpoint of the investor some progress has been made. However, there is absolutely no attempt at uniformity in form or method, and as a result a great share of the value inherent to the corporation report is lost to the investor.

As a result of these two difficulties discussed above there is a decided tendency on the part of the investor to place great emphasis on two other types of corporation records, namely, the statement showing the dividends earned and paid by the business over a period of years, and certain ratios which tend to reveal managerial efficiency. The comparative statement of dividends earned and paid is easily read and understood, and, inasmuch as the chief element of security from the standpoint of the investor is the earning power of the business, this statement does furnish a ready index to the investment worth of the concern's securities. The chief objection to its use is that it is inadequate and does not always tell a true story or give a sufficient warning in times of difficulty. Never the less, experience shows that in the hands of the average investor it is far more effective than either the balance sheet or the income account. The ratios we mentioned are such ratios as the operating ratio, the relationship between the gross earnings from operation and the operating expenses; the relation of fixed charges to gross income and income applicable to the payment of fixed charges; the ratio which gross earnings bear to the value of the property; capital turnover; inventory turnover; etc. The use of these ratios is of much more recent origin than the use of the dividend record. The growing ability on the part of the investor to understand and use such ratios will likely make of them a rather effective tool. It is rather easy to see the difficulties that beset the investor when he attempts the analysis of the risks incident to industrial investment. It will be worth while to discuss briefly some few of these characteristic risks.

The nature of a business effects the investment status of its securities very materially. Some businesses require large amounts of fixed capital in proportion to the working capital used in operation. When the larger share of the capital used in a business is in the form of fixed assets, all other things being equal, the securities of this type of business are preferable from the investment standpoint to the obligations of businesses the major portion of whose capital is in the form of quick or liquid assets. This is contrary to the condition which the short time creditor of a business seeks to find. The increase in the time element involved in investment is responsible for this. Fixed assets are not so easily dissipated as working capital, and a large proportion of such permanent capital makes for long time stability. This means less risk.

The nature of the business also has a great influence on stability of earnings. The business which is engaged in producing a stable consumptive necessity is a much more desirable investment proposition than the business engaged in the production of a highly specialized article to be used in further production. This fact has already been mentioned. Changes in general economic conditions, periods of depression and prosperity, little effect the market for matches, for instance. A wood working concern which depends to a great extent on the market for a yarn spindle, which, tho highly efficient, is more costly than the common old fashioned article, finds that in periods of consumer prosperity its sales are good, while in periods of depression there is little demand for its product and its machines stand idle.

Management is another factor which goes a long way to determine whether the earnings of a concern will be stable or not. An illustration of this principle recently came to the writer's attention. A business engaged in the production of a specialized machine suffered from the seasonable nature of its market. It was also very greatly handicapped because it was never able to predict what this demand would be year by year. If the farmer was prosperous it could hardly build enough of its product to supply the demand; if the farmer had little purchasing power its market was frequently cut in half. As a result the business in some years was very prosperous while in others its profits were practically nil. A new management took over the control of affairs. They developed a very efficient type of lawn weeder which found a ready demand. In the seasons of the year when they were not busy with the production of the machine which was their chief product, they devoted the energies of their organization to the production of the weeder. As a result, during the recent period of slow farmer buying, the earnings of the concern held up well, and there is good reason to believe that the change in managerial policy will result in a much stabilized income to the holders of the securities of the concern. Management is one of the most important factors in stabilizing earnings.

Location is another thing which makes for stability or instability of earnings. Location with reference to the source of supply of raw material, the market for the finished product, and transportation; fortunate indeed is the business which enjoys the advantage of such location facilities. It is rather easy to see the effect that these factors have upon the stability of a corporation's earnings.

There are many other considerations which effect the earnings of a business. Time does not permit an adequate discussion of all of them. The foregoing illustrations will serve to indicate the wide variety of factors that must be taken into consideration in analyzing the stability of income which is so important to the investor in private corporation securities. The application of some of the principles outlined will be developed in certain particular cases later on.

Before we leave the subject of income stability of private corporation securities it will be well to note the effect which the form that the security takes has upon its investment status. We found that the securities of public corporations were invariably promises on the part of the obligor to pay, and that these promises were not usually supported by any specific pledge of value. It is in the field of the private corporation that we find that wide variety of security offerings which has so complicated finance from the standpoint of the investor. We cannot discuss this subject exhaustively here. We will point out some of the more common types and note their differences to the investor.

Corporation securities can be divided into two general classes, those which represent a promise on the part of the corporation to pay and those which represent ownership in the corporation. The first type are usually called bonds or notes, depending upon the time for which the loan runs. The second type are in this country called shares or stocks. There is an old maxim which says, "bonds for investment, stocks for speculation". To a very great extent this is true. However, there are cases where stocks have become sufficiently stabilized to be rated as investments, and there are many bonds which can hardly be considered as investments. In so far as it is possible to generalize, the old truism holds good.

Of the different types of stocks probably common shares are least desirable for the investor, altho there are common stocks that could be considered as investments for some individuals. These common stocks are few and far between, and it is only the most experienced investor who would be able to accurately distinguish them. Preferred stocks are, as a class, Better investments than common stocks. Here again it is most necessary that the investor be of long experience and possessed of great ability, for the proportion of perferred stocks that might be rated as as investments is but a fraction of one percent. Guaranteed preferred stocks are usually better investments than either the common or preferred shares. The guarantee makes the dividend payment a fixed charge against the earnings of the guarantor. The investment value of the security as a preferred stock is increased only and exactly by the value of the guarantee itself. The guaranteed preferred stock is more difficult of analysis than either the common or preferred shares and is an investment opportunity for only the exceptional investor.

There has been developed, during the recent period of capital stringency and high interest rates, a somewhat different type of stock offering. Corporations which had sufficient strength, in order to escape an excessive interest load and give the investor a security advantageous from the standpoint of taxation, adopted the expedient of issuing cumulative preferred stocks with a definite maturity date. The corporation reserved the right to buy in the shares at any time at a specified price, and guaranteed to make these purchases within a certain time. From the standpoint of the investor these securities were in most respects not stocks at all but rather callable debenture bonds with a favorable tax position. Some few of the securities of this type were good investment opportunities for the experienced investor but many of them were not. Such freak financing as this invariably developes in a period of financial stringency, and to the individual capable of taking advantage of the situation presents a very enviable opportunity. Altho a few of the individual cases are desirable the majority are quite the opposite. They can never be urged upon the average investor as a type suited to his capacities and needs.

So much for stocks as investments. The other type of corporate securities, bonds, is a much more difficult subject to treat. Without exception they are the definite promise on the part of the issuing corporation to pay at a definite time. They are unlike public promises of this sort in that they are often additionally secured by the pledge of specific property against which the security holder thus has a superior lien. Corporation bonds fall within one of three classes - mortgage bonds, collaterally secured bonds or debenture bonds. The debenture bonds are the unsecured promise of the corporation to pay, and depend for their security on the general credit of the corporation. The interest on them constitutes a fixed obligation of the corporation and thus comes ahead of the claim which stock-holders have on earnings. They are inferior both in solvency and liquidation to the mortgage secured obligations of the concern. Mortgage bonds, as we have said, are secured by specific pledge of the whole or a part of the concern's property. This pledge may constitute either a first or an inferior lien against the property pledged. As an outcome we find many types of mortgage bonds; first mortgage bonds, second mortgage bonds, general mortgage bonds, refunding mortgage bonds, and combinations of these and many other types. No year goes by that does not see some further development along this line, and new types of obligations with mortgage security are continually springing up. The collaterally secured bond is one backed by a pledge of other securities. These may be of any type. The analysis of the collateral bond involves the evaluation of the various securities pledged. As has been indicated these may be of any of the three types we are here discussing.

It requires no demonstration to convince that the form which the security takes has a direct bearing upon the risk involved. The nature of the property pledged, in the cases of mortgage and collateral bonds and the lien which the investor holds against this property, and the general credit of the obligor in the case of the debenture bond go a long way in determining the security of the investor in the going concern. In event of liquidation these considerations are of first importance. One word of warning. In investment there is nothing in a name. It is true a first mortgage bond is a first mortgage bond. But what is the first mortgage on? Perhaps all the property of the concern, perhaps little of it. Likewise a general mortgage may be to a great extent a first mortgage. There is little in a name. The investigator must always get beneath the surface, and the surface is frequently very thin.

In this connection we must say a word concerning book value. Book value is determined by deducting from the actual assets of the concern, valued at the figure at which they are carried on the books, all the claims against these assets which are prior to the claim under consideration. The result is divided by the number of units of the security being considered to determine the book value per unit. Book value would not be mentioned in this paper were it not for the frequency with which the investor encounters it. As an indication of investment merit it has little worth. If the figures at which properties are carried on the books of a corporation were representative of the actual values, either in solvency or in liquidation, we might give much more weight to the book value of a stock. In practice, however, the wide divergence in capitalization policies to be found in private finance destroys what might otherwise be a valuable investment barometer.

Book value is very frequently used in connection with price figures. In the case of a stock price is determined, not by the book value of the stock, but by capitalization of the present and future earning capacity of the stock plus any value which the managerial control residual in the stock may have. In the bond price is determined first by the rate of true interest at the time, and second by the additional compensation accruing as a result of risk involved. It is obvious therefore that there is little to recommend book value figures as a measure of investment worth.

<u>Peculiarities of the Various Kinds of Private Securities</u>

So far we have been speaking of the securities of private corporations in general. It is necessary that we consider some of the peculiarities of the various types of private securities. For this purpose we shall divide the field into industrials, public utilities and railroads. By industrials we mean that large and varied class of enterprises, manufacturing and trading, which produce the thousands of commodities and services so essential to our daily life. We single out from this all-inclusive group those enterprises which have become so essential to public welfare that we have placed them under the supervision and control of state bodies, known as Public Utility Commissions. The more important enterprises that have been thus designated as public utility businesses are the water, gas, steam electric, hydro-electric, electric urban, suburban and interurban railways, telephone and telegraph companies. The last two of these, the telephone and telegraph businesses, are of less interest to the investor than the others. There is one other public utility, the steam railway, that we have placed in a class by itself. When railroads do an interstate business they are under the control of the Interstate Commerce Commission. Tho they resemble the other public utilities in many respects, they differ from them in several important ways. Their size, the fact that they do an interstate business, their relative importance as utilities because of their interstate nature, the intricacy of their financial affairs, the diversity of their investment offerings, these things with others make their separate treatment desirable.

The Industrials

We have already considered most of the essentials to the analysis of industrial securities. Nature of the business, location, management, the market, the assets and liabilities of the business as evidenced by the balance sheet, the earnings and operating facts to be obtained from the income account, the value of having our figures on a comparative basis, the difficulties connected with all this, the imperativeness of knowing something about what the future earnings of the business are going to be; these are the important considerations pertinent to the industrial. And industrials as a class, we said, are the least conservative of all investments. It is only the experienced, the trained, the seasoned investor that can indulge in them. Even he can do it only when he has prepared the way by building for them a solid foundation of conservative securities.

Public Utilities

The fundamental difference between the industrial and the public utility is the nature of the product. All the complications that attend this type of security grow out of this one basic difference. Without an adequate water supply mankind perishes. Without internal transportation our entire industrial structure breaks down. Without power and means of communication we should be thrown backward centuries. The products and services of public utilities are indispensible to modern man. This means that they must be maintained. Capital is attracted to an industry only when the industry returns a fair compensation to its owners. Therefore we have a commission, one of whose functions it is to see that the business shall be so conducted as to return a fair profit to its proprietors. In the public utility field competion is exceptionally destructive.

The commission has taken this situation in hand. What this means to the investor in the securities of the protected industry needs no exposition. Then, consider the nature of the product of the utility. We drink just about as much water in one year as we do in another. We must have light whether the times be good or bad. Gas for cooking purposes, the telephone and the telegraph are likewise services which fluctuate little either with the season or the business cycle. To the investor this means stable earnings. Stable earnings and sufficient earnings are the things that make for investment desirability in the field of the private security. While these conditions are true only in a relative and not in an absolute sense, the general excellence of the public utility as an investment opportunity is well recognized and will, the writer believes, maintain itself. Of course there is a great dissimilarity between the various kinds of public utilities. Water bonds are a far different proposition than the obligations of the hydro-electric develop ment; and the gas company and the street railway can hardly be placed in the same category. The nature of the product and its market, together with the effect which changes in demand brought about by new develop ments, are the chief differences. These differences are well summarized in the following table taken from "Costs of Urban Transportation" by W. C. Doolittle.

Relative Investment Rank of Five Types of Public Utilities

	Water	Gas	Steam electric	Hydro-electric	Electric railway
A	Poor	Fair	Fair	good	poor
B	Good	Good	Good	Very poor	Poor
C	Very good	Good	Good	Very good	Very poor
D	Very good	Good	Good	Good	Fair
E	Good	Good	Fair	Good	Very poor
F	Very good	Good	Good	Good	Poor
G	Poor	Good	Good	Good	Poor
H	Very good	Good	Fair	Poor	Fair
I	1	2	3	4	5

A- Danger of difficulty with municipalities
B- Unknown elements
C- Fluctuation of labor
D- Fluctuation of raw material
E- Predictability of depreciation
F- Influence of change of management
G- Influence of change of rate
H- Fluctuations in gross earnings according to business depressions
I- Relative excellence as based on general estimate without special engineering knowledge

Railroad Securities

The railroads are experiencing difficulties. As a result many investors have of late been dissappointed in their holdings. The subject of railroad finance is a big one. It is not our object to treat it here. What the future holds for them no one can definitely say. Predictions are hazardous. The writer will venture this much. Transportation is as essential to the welfare of civilization as sunlight. The world has become too populous for it to be otherwise. We cannot have transportation without capital, and capital will be attracted in sufficient quantities only from investors. Capital can be thus obtained only when the investment opportunities are made attractive. This means work for the Interstate Commerce Commission. Tho the bulk of railroad securities in this country today are not advisable investments for the average investor, the time will undoubtedly come when they will be. It is impossible to believe that any other condition can obtain.

The investment virtue of railroad securities is dependent upon the same considerations that are effective with industrials generally. The railroad is difficult of analysis because of the complexity of the industry. The investor has two outstanding advantages. The Interstate Commerce Commission has given us uniform accounts for railroads which makes comparisons easier and more valuable. Also there has been built up a fairly wide speculative market for the rails thru listing on the exchanges. This has resulted in a degree of marketability that is very attractive to certain types of investors.

To summarize: today some few railroad securities are good investments, many are not. Consequently, the general excellence of the rails for the investor which once obtained has broken down. Tomorrow that condition of general excellence may come back. When that tomorrow will be with us no one can say. The experienced technologist who can read the handwriting on the wall will profit most generously. The average investor does not possess such technical ability.

The Opportunity of the Average Investor

So much for domestic securities. We have yet to consider foreign offerings in general and those of South America in particular. Before we do that it will be well to summarize the work we have done thus far.

We find that the problem of investing can well be broken up into three parts: the determination of investment needs of the individual, the analysis of the investment offerings available to him, and the bringing together of the investment and the investor best suited to each other. The investor in whom we are here interested is the "average" investor. This individual we found to be of small fortune whose investable funds are limited to savings. He is an individual possessed of little investment experience or training, and yet one who possesses certain inborn traits which make him dissatisfied with the staid prosaic ultra conservative security which serves to satisfy individuals of similar capacity in other countries. His needs are best satisfied by the diversified investment plan. Such a well worked out plan will involve first the building up of a foundation of the best and safest commitments possible. This done he may branch out in an endeavor to enlarge his return. These less conservative commitments must in themselves be individually desirable securities. This means that because of his limited investing ability he must still stay away from the more speculative uncertain types of investment securities. Upon his foundation of government bonds he will work out a plan which will include state, county and city municipals, a few public utilities of the better class, and perhaps a very small portion of rails or industrials. The advisability of the latter type is very questionable. If the average investor does work out some such scheme which, while fitted to his individual needs, recognizes the fundamentals here laid down, the result will be a degree of safety that will make him feel secure and that coupled with a return sufficient to satisfy all reasonable demands.

And now how about the foreign security? How about the South American offerings that have become rather common here? Do they fit into the average investor's plan, and, if so, where? This is the problem which this paper purports to solve.

Kinds of Foreign Investments - Their Analysis

There are just as many different kinds of foreign security offerings as there are domestic. The various classifications that we have employed in discussing domestic securities apply with equal force to the foreign field. We will find that there are foreign government, state or department, municipal, public utility and railroad securities which are available to the American investor. Five minutes spent in reading a quotation sheet of the London Stock Exchange will serve to convince on this point. Further, to a great extent the characteristics of these foreign security classes correspond very closely to those we noted in the domestic classes. There are of course some variations in them. If a nation is not made up of a number of sovereign states, as in our own United States, the significance of state sovereignty will be lost in the case of the foreign governmental subdivision. Again, if a foreign railroad is state owned and financed through the issue of securities by the government, obviously these securities must be regarded somewhat differently than those of privately owned enterprises. Public utilities must also be considered in a different light if there is no controlling body similar to our state commissions, or if the utilities are owned by the municipalities in which they are located. But in the main the same considerations hold. We can say that the chief element of security behind the foreign government bond is the good faith of the nation's people just as in the case of United States government obligations. These same considerations, then, will be the basis of our foreign security investigations. Where the foreign bonds differ we will call attention to the fact, otherwise our analysis will conform to the lines already laid down.

How Foreign Investments Differ From Domestic Investments

Foreign securities resemble the same types found at home. This does not mean that there is no difference in their analysis. There are differences, vital ones, but as a rule they apply to all foreign investments and not particular classes, tho of course the effect which a particular condition has on one type may not effect all classes of foreign securities in the same way.

Lafergrenk

There are three big types of variance between the analysis of domestic and foreign obligations. These are differences in political, social and monetary conditions. The factors which must be considered in connection with these differences we take for granted in the case of domestic securities, they are not new elements in the consideration but are problems which present themselves as such only when we get away from recognized familiar ground. As far as the writer can determine there is but one new problem that presents itself in the consideration of foreign investment. That is the international situation which developes when one nation makes commitments of capital to another nation.

The political, social and monetary differences between nations make necessary the consideration af such subjects as the laws and customs of the country, methods of taxation, financial history, foreign trade, banking and the currency system, political integrity, social and industrial education, resources, transportation and communication and the like. It is such factors as these, coupled with the difficulty of obtaining information pertinent to the particular type of investment which is more readily obtained at home, that make the analysis of foreign securities a difficult technical problem. These three differences make for a great increase in investment risk even when the issuing authority might in itself seem to be the equal in stability and security of a comparable domestic issuing authority. This increase in risk must of necessity be reflected in greater returns to the investor. Domestic capital will flow abroad only when the increase in return compensates for the additional risks involved. It is this relatively high return that has been attracting capital out of the United States recently. The danger lies in the fact that the average American investor, inexperienced as he is, buys the foreign security because its yield is high, feeling that because the security is the obligation of a national government, a state or a city, that the security behind it cannot but be good. He does not realize that this generous return is a compensation for risk involved in making the foreign commitment. He sees only the figure that represents return and the words that read perhaps, obligations of the national government or of some rather well known city. Again it is necessary that we go beyond the surface glamour and find out why the yield is great.

We have said that the political, social and monetary differences which exist between nations make essential the investigation of such matters as political integrity, laws and customs of the country, financial history, taxation, banking and the currency system, foreign trade, population and education in the analysis of foreign security offerings. The political integrity of the nation is a matter of great importance. If the bonds be those of the government itself, obviously an unstable political organization or the prevalence of graft and corruption among government officials will make the investment worth of the instrumentalities of such a government very questionable as investments. The following statement is taken from the Department of Commerce, Special Agent Series

No. 199, a Commercial Handbook of Paraguay. "The recognized foreign debt of Paraguay consists of two foreign loans which at the end of 1918 amounted 5,544,472.30 gold pesos. * * * * * * The first of these is the London Loan * * * * * * the first section of which amounted to 1,000,000 pound sterling and the second section * * * * * amounted to 2,000,000 pounds sterling. Both were to draw interest at 8%. The first sold at 80 and the second at 85. It is said that not more than 200,000 pounds sterling of the proceeds of the two loans ever reached the National Treasury." If the securities offered the investor are private securities instead of public the position of the investor is no better. Russia is the classic example today. There are and have been others. Where there is not national security private values become questionable.

The laws and customs of the people are of importance to the investor. Do the laws of the country adequately protect industry? Is foreign capital favorably regarded and fairly protected? Daily experiences of American capital in our neighbor to the south, Mexico, illustrate the importance of this question. Again, referring to Paraguay we find the following: "The great mass of the Paraguayan people are very provincially minded, and while not positively hostile to the foreigners, are somewhat disposed to blame the 'gringo' for the increased cost of living and for other conditions of the newer and less easy-going regime of the present. In normal times their general apathy prevents this feeling from becoming a serious obstacle to foreign enterprises, but it might offer a dangerous field for an anti-foreign politician to work on." The foreign investor could hardly consider such a situation ideal.

The financial history frequently yields much enlightening information to the investor. The amount of the expenditures over a period of years show the general tendency in this direction; the revenues for a comparable period indicate how these expenditures were met. Are the sources of this revenue such as to indicate continued stability along this line? Were they obtained from borrowing, from taxation, from government industries, or how were they obtained? If the revenues were from taxes, what was the nature of the tax, was it property or an internal excise tax or a tax on imports? If it was a tax on imports are the articles taxed necessities which cannot be produced at home and therefore conducive of a stable return, or are the taxed commodities luxuries or a product which can be produced at home? A consideration of the financial history of a nation is the best barometer of what its future financial position and policies will be. It can be most profitably employed in an analytical investigation.

Taxation and its effects on domestic and foreign industry should receive considerable attention. The following refers to Paraguay. "Taxation is light and some enterprises are exempted by their concessions from all direct taxes during the initial period of operation. However industries which show comfortable profits quickly attract the attention of the national budget makers." We have already noted the vital relationship between taxation and government securities in the case of United States government bonds. In the case of foreign government securities, both national and state, the situation is much the same. Lack of familiarity with foreign taxation conditions necessitates a more extensive and detailed study. That the return be both adequate and steady is the important factor. Past experiences will form a good index as to what the future will be. Past experience must, of course, always be interpreted in the light of changing conditions.

An adequate and substantial banking system is imperious if a country is to develop and prosper. It is usually possible to obtain information along this line. Of equal or greater importance is a stable monetary system. Again referring to Paraguay: "The currency consists of unredeemable paper, issued in denominations of 50 centavos to 1000 pesos. Not only has this money suffered a great depreciation in value but its physical appearance, generally in an advanced state of physical dissolution, is a discredit to the nation using it as a circulating medium. The range of daily value fluctuation is illustrated by the following * * * * *: in eight days of May 1919, the extremes of the rate varied over 100 points, and in two days between June 17 and June 19, the rate rose from 831 to 911. * * * * The practical significance of such a situation is apparent at once. It necessarily puts business on a speculative basis. Both costs and receipts are at the mercy of the daily 'tipo' or rate, and business houses are forced to guard against a turn in the exchange which might effect them unfavorably." In a day when, as a result of almost universal war, the monetary systems of even the most stable nations are upset, this subject of the monetary conditions cannot be too strongly subjected to scrutiny when dealing with nations of lesser commercial standing.

Foreign trade must be studied because it is a vital factor in modern national prosperity. It must be considered in relation to the demand for world products which the resources of the country makes necessary, and the extent to which its own surplus resources are in world demand. Comparative figures to show the nature and value of imports and exports and the amount and nature of the balance will be found a great aid. Then imports and exports tabulated by countries are helpful to show any commercial influences to which the country under consideration may be subject. These statistics arranged to show conditions annually for a period of years are of great importance in that they tend to discount the future. Especially is this true when the securities under consideration are those of a private corporation which is dependent for much of its market on foreign countries, or is itself a protected industry subject to potential outside competition thru possible changes in the tariff situation. If the securities are the obligations of the national government, and if the government derives any considerable part of its income from imports or exports, the stability of this situation is of vital importance, and our figures on foreign trade will go far towards establishing the true condition.

No nation can be more prosperous than its people. The amount and changes in amount of population are essential data. The character and nationality of the people frequently tell a significant story. Immigration and emmigration, and the nature and amount of the balance are always important. In connection with the study of a country's people, we should always consider the extent and

and nature of their education. A nation of people trained in industry is a far different investment risk than a nation of similar size whose people have little education, or a nation with a small highly socially educated group and no education for the masses. A nation can have no greater resource than an adequate school system.

These are a few of the conditions that are fundamental to investment stability in any country, factors which we take for granted here at home. When capital goes out into the less familiar fields, these fundamentals become of first importance. They are not peculiar to the foreign fields, however, and it is only our lack of knowledge, or a lack of stability on the part of the other nation, that makes them so important.

We said that there is one consideration in foreign investing that is not found in the domestic commitment. When the capital of one nation goes out and finds an abiding place in another country, if there be any considerable amount of such capital flow the investing country eventually comes to have a very considerable commercial interest in the borrowing country. This gives rise to the so called spheres of influence which have played so important a part in recent international politics. In these spheres of influence is to be found the destiny of political entity.

Any nation which allows its citizens to invest abroad to any considerable extent is bound to find itself involved in world politics. The situation is aggrevated by the investor's demand that his interests abroad be protected by the home government. There are no international civil courts, and in foreign investment battleships must take the place of receiverships. If the investor in foreign securities is to feel safe, he must know that in event of difficulties his home government will back up his just claim to the very fullest extent. British gunboats have ever been insistent arguments in favor of the payment of sterling debts on the part of other nations. This policy is in vivid contrast to our own national attitude on the subject. The very first condition which the investor must consider in the purchase of foreign bonds, no matter what their nationality or character, is the attitude of the home government in respect to foreign capital commitments. As we have already indicated, some of the European nations have assumed very definite attitudes and policies which are advantageous to foreign capital commitment. The United States has never assumed any definite position in this matter, has never made a frank statement. Experience never the less gives the average American investor much that is indicative of what he can expect in the matter of foreign investment protection from his home government. There is nothing in the history of American capital in Mexico which could possibly be construed as protection of the investor. Even when specific duties have been pledged as security for the payment of just obligations the national government has without hesitation ignored default of these pledges. It is the belief of the writer that the average American investor cannot feel safe in his foreign commitments until his own government takes some definite stand with reference to the protection of the interests of its citizen investors in foreign securities. On the first count, then, South American investment offerings seem to have the worst of it.

The Analysis of Foreign Securities - a Summary

Let us briefly summarize the work of analyzing a foreign security. The first and most important consideration is the attitude of the home government towards the protection of the foreign commitments of its investors. The next point is the question of the political, economic and social soundness of the country in question. This involves the investigation of such questions as political integrity, laws and customs of the people, financial history, taxation, banking and the currency system, foreign trade, population and education. The treatment of each of these subjects we have already discussed. When we are sure of the situation thus far, we can take up an analysis of the individual security. The procedure from this point conforms with that outlined for domestic securities. First, is it a government obligation or that of a private corporation? If the former, its worth depends upon the good will of the obligor, ability to pay, and the legality of the issue. The relative importance of each of these three factors depends upon whether the issue is that of a national government, a sovereign subdivision, or a nonsovereign political unit. The basis for the evaluation of each of these three factors has been discussed fairly extensively. If the issuing authority is a private instead of a public corporation, our problem will be to determine the earning power of the corporation and the value of its assets in liquidation. To facilitate this we divide private securities into three classes; railroads, public utilities, and industrials. There are various factors peculiar to each of these types as we have already seen. Foreign securities of these classes sometimes differ slightly from our domestic issues in ways already noted. These differences grow out of the effects of political, social and economic conditions.

We may say that if the home government protects the foreign investor, if the political, social and economic conditions are favorable, and if the particular issue itself is possessed of investment merit, then and only then the commitment may be considered a desirable foreign investment. The problem of this paper is the analysis of certain South American offerings along just such lines to determine whether they are desirable investments for the average American investor.

South American Securities as Commitments for the Average American Investor

To facilitate the progress of this paper we will now briefly state our general conclusions concerning the advisability of the average American's investing in the South American securities offered in our markets. We will give supporting facts and figures showing the conditions which give rise to these conclusions and finally we will recapitulate and sum up the exact situation.

South American securities generally offered the American investor are, without exception, of the public corporation type. They are the obligations of national governments, subdivisions and cities. The examples given in the early part of this paper are typical. Practically all of these securities fall within the investment field. From the standpoint of safety some of them are better investments than others. None of them fall within that class which we speak of as ultra conservative investments. In our consideration of the principles of investing we divided all investments on the basis of their security into five classes. Practically all of the South American investment offerings fall within the fifth, the least conservative, class. Possibly one or two exceptions might be placed in the fourth class, but the advisability of doing so would, in the writer's opinion, be very questionable. The yield from these securities is uniformly high. A study of the facts tends to convince one that this yield is not higher than one would expect from investments of this degree of safety. Certainly domestic investments of equal security can be found with a commensurate yield. We have pointed out the difficulty on the part of the average investor in analyzing the less conservative classes of investment securities. These difficulties are greatly increased in the case of foreign securities. It is easier for the average investor to approach a scientific analysis of a domestic industrial or public utility than it is for him to accurately judge the investment worth of foreign bonds yielding a like return.

If we accept the principles of the diversified investment plan as outlined in this paper it is evident that the average investor's commitment in foreign securities could under no circumstances be other than very meager. We said that it is not usually desirable for the average investor to make commitments in the fifth class of securities. His fourth class investments must be small in amount, and can reach this proportion only when the investor has provided an excellent foundation of conservative and ultra conservative investments. This means that if some few exceptions in the South American investment field could be classed as of the fourth grade of security these investments would be elegible for absorbtion by the general American investing public. There is one more point. If the most of the South American investment offerings are not of this fourth grade of security, and if the sorting out of the better type of these South American offerings from those not so good is a more difficult proposition than the analysis of domestic securities of an equal grade, how can the average American investor who finds the analysis of domestic securities of this class very difficult and exceedingly risky, afford to take on the additional risks incident to South American capital commitment?

South American investment offerings as they are found in the North American markets are in most cases good investments, good for some people. But there are as many different types of investment needs as there are investments. South American offerings are good bonds but not for the average American investor. The absorption of these securities here in the United States is probably very desirable. But it is not the duty of our newly developed investing public to do this. Further, it is not desirable that they should. The larger, more experienced investor is the proper market for these securities. Or, if this class has not sufficient buying power, perhaps the foreign investment trust is the solution of the problem. We will consider that phase of the situation later.

Our National Attitude Toward Foreign Investing.

The United States has never adopted any definite policy towards the subject of foreign investing on the part of its citizens. Before such an attitude can be announced to the world it will be necessary that we settle certain other questions of national attitude toward the world at large. This is because of the international complications which grow out of capital commitment abroad with national sanction. Our attitude in the past has been one of expediency. Sometimes American capital abroad has been protected, as in the case of the Haitian Loan and capital invested in certain Central American countries. Yet it is not so long ago that Elihu Root instructing the delegates to a Pan American Conference said that it was not the policy of the United States to use military force to collect the ordinary contractual debts due its citizens by other governments or people of other nations, because such a policy might prove injurious to the weak and disordered nation, there would be a tendency to bully and oppress them to collect the debts. The insistence of our Senate that the war debts owed us by foreign governments be paid in full might seem to indicate a change of attitude. It must be remembered, however, that these obligations are of a quite different nature, and that the circumstances surrounding their creation, and the manner of obtaining the funds advanced, make impossible any parallel which might be drawn from this action. Certain it is that the future policy of the United States toward many of the complications involved in the public announcement of a definite policy of world investment is a matter of no certain knowledge. It is the writer's opinion that it will be some time before this country will be willing to accept the responsibility of foreign investment protection. Certainly the present holds no assurance for the investor, who would put his capital at work abroad, that his own government will actively protect him in his commitments.

Analysis of the South American Investment Field

There are twelve national governments on the South American continent. There is a vast difference between them. Some of them are much stronger than others, more stabilized. The securities of these governments have found an extensive market in the United States. Some of the lesser nations have likewise floated loans abroad. For the purpose of our analysis it seems adequate that we single out a representative group of these countries. A preliminary investigation of the various countries, with particular reference to the volume of their external loans, resulted in the selection of Brazil, Argentina, Chile and Paraguay as about covering the entire situation. Brazil and Argentina are representative of the stronger nations. Chile represents the intermediate type and Paraguay is representative of the lesser South American nations. Our investigation will be confined to these countries. Because of their differences in stability we take up the subject by country and point out conditions in each. Our presentation will take the form of a brief preliminary statement concerning the country under consideration, statistical compilations of the desired information with a short explanation and analysis and a general summary in conclusion. The first country which we will consider will be Brazil.

Brazil

The Republic of Brazil is the most extensive state of South America. With an area of 3,218,991 square miles it occupies nearly fourty-five percent. of the South American continent. It had a population in 1920 of 30,535,605 people, an average density of 8.5 per square mile. The chief products of the country are coffee and rubber. Tobacco and cocoa are grown extensively. Cotton is being cultivated, largely for export tho it is being used to some extent in home manufactures. Sugar cane is being grown in increasing quantities in the northern provinces. Cattle raising is an important industry. The minerals are considerable and valuable, comprising gold, silver, iron, diamonds, topazes, and other precious stones. The forests are immense, containing a great variety of beautiful and useful woods. There are 17,000 miles of railroad and 40,000 miles of telegraph wires.

Brazil has incalcuable wealth in her mineral and forest lands. There is apparently no limit to the possibilities of agriculture. Manufacturing, tho little developed, is growing rapidly. Potentially, Brazil has a very bright future. Her one great handicap is climate and the nature of her population.

The present financial situation and outlook in

Brazil is very unpromising. It is the result of a complex series of forces some of which have been operating for years while others are of more recent origin. A depression was in full swing long before the war broke out. The war greatly intensified an unhealthy condition and brought certain new forces into play which have contributed to the present condition. The following is taken from the Department of Commerce, Special Agent Series - No. 103, Financial Developments in South American Countries, by Wm. H. Lough. "The present situation is due to the cumulative effect of the following factors: (1) partial loss of the market for rubber and coffee, and decline in prices; (2) some over-banking and overextension of credits; (3) a series of governmental deficits; (4) an unstable currency; (5) the European war."

Just what the future holds for Brazil is difficult to estimate. Her potential resources are enormous. It is very significant, however, that at the present time agricultural development has been confined to a few lines and these lines have for the most part been nonessentials. Cotton, cattle and fruit raising could be very profitably carried on. The mineral resources might well be developed. However these new resources will require long and patient cultivation. The introduction of direct taxation would also probably result in a steadier source of revenue than the present system of taxes. Certainly the most needed reform is an improvement in the currency system which will render it more stable. Brazil can experience little permanent improvement in financial status until the National, State and municipal governments undertake such reforms.

This statement is fully upheld by the following detailed consideration of political, social and economic conditions in the country.

Laws and Customs of Brazil

The constitution of the United States of Brazil is similar in most respects to our own, in fact it was modeled after it. All people residing in Brazil are guaranteed protection of life and property, religious freedom, freedom of speech and of the press, and freedom of commerce. Inventions may be patented by the inventor. Persons are entitled to enter and leave the country in most cases without passports. Foreign companies must comply with the laws of Brazil. Foreign companies are advised either to apply to the Brazilian Government for Domestication of the Company or to form a Brazilian company. The laws of the country are seemingly fair and liberal to investors. However a declaration of bankruptcy abroad cannot be brought against a Brazilian debtor. In domestic bankruptcy proceedings foreign creditors do not participate until after all domestic claims have been satisfied. To this extent, at least, the foreign investor is discriminated against. Brazil has always welcomed foreign capital. This policy has several times resulted in over-development, and Brazilian businesses have in consequence faced financial embarassment. The government has always attempted to come to the rescue in so far as it could. The result has been large national deficits and even financial embarassment of the national government to the extent of default. The Brazilian government has gone through two such defaults. In both cases defaulted sums have been eventually made good.

Financial History

In the early part of the nineteenth century the Spaniards invaded Portugal and King John VI with his court fled to his new territory, Brazil. He reigned in luxury and left a heavy burden of debt to the Brazilian people. In 1891 the monarchal form of government was overthrown and the Republic took its place. It assumed the financial obligations of the old government. The new government brought with it new extravagances. Political and civil strife were common and the debt continued to grow.

Recurring deficits were covered with fresh loans. In 1898, the government found itself unable to meet its obligations and was forced to default interest payment on its bonds held abroad. To meet this situation the government negotiated a new loan of 10,000,000 pounds sterling with the Rothchild interests in London, on the condition that the government retire an amount of paper money equal to the amount of the loan. A sinking fund to be started in 1911 was to provide for the retirement of the bonded debt.

The World War effected Brazil in much the same way that it did other countries. Deficits started to mount up and paper was issued to meet them. The result was a greatly depreciated currency. This condition, coupled with the severe business depression that had existed before the war; the falling off in price of coffee, Brazil's chief export; the decrease in rubber exports due to the keen competition of rubber from the plantations of the Straits Settlements, and other regions of the Far East; caused Brazil's revenue to fall off to such an extent that for the second time the government was unable to meet its interest payments on its foreign obligations. This was in 1914 and payments were suspended until 1917. This emergency was met in a way similar to the procedure of 1898. The interest was funded by issuing 15,000,000 pounds sterling

5% bonds secured by a mortgage on customs revenues subject to the funding loan of 1898. The sinking funds and the maturities of all bonds were extended thirteen years. The contract provides for a sinking fund of one half of one percentum per annum to commence at the end of ten years from July 31, 1917.

The following tables indicate accurately Brazil's financial standing.

Official Financial Report for the year 1919.

National debt -- foreign	116,281,960	pounds
National debt -- internal	1,042,000,000	milreis paper
Currency in circulation	1,709,113,473	milreis paper
Conversion fund	20,922,410	milreis gold
Guarantee fund	48,391,020	milreis gold
Unredeemed bills and notes	14,632,500	milreis
General tax Revenues for 1920	119,452,949	milreis gold
	514,258,200	milreis paper
Estimated expenditures	72,372,326	milreis gold
	599,578,557	milreis paper

Note: Equivalent gold milreis in U.S. money 1920, $0.546
Equivalent paper milreis in U.S. Money 1920, $0.2251

The actual revenues of the year 1920 amounted to 102,005,000 gold milreis and 624,761,000 paper milreis. The expenditures were 75,680,000 gold milreis and 711,640,000 paper milreis. This made a gold milreis balance of 26,325,000 and a paper deficit of 86,879,151 milreis. Reduced to a single figure this represents a deficit of 1,476,382 milreis gold. Obviously the expectations of the 1919 report were over-optimistic.

Latest Figures on National and State Debt

Total national debt:	Foreign	$ 776,450,000 (1922)	
	Internal	1,042,000,000 milreis paper (1920)	
Total state debts:	Foreign	61,201,540 pounds ster. (1920)	
	Internal	27,170,704 pounds ster. (1920)	

National Revenue and Expenditure 1914-1919

Year	Revenue		Expenditure	
	Gold mil.	Paper mil.	Gold mil.	Paper mil.
1914	130,219,885	367,611,000	95,469,809	435,773,469
1915	112,816,996	334,646,000	70,999,236	378,862,047
1916	114,082,000	350,693,000	72,088,000	418,155,000
1917	128,335,204	340,138,333	98,532,945	407,426,730
1918	85,072,358	383,605,000	84,456,084	461,958,751
1919	113,533,434	502,989,000	80,369,807	476,641,194

Debts of the States of Brazil 1920

State	Internal	External
Alagras	600	500,000
Amazonas	34,583	5,955,420
Bahia	37,668	6,254,933
Ceara'	2,863	570,500
Espirito Territory	6,808	1,752,618
Federal Territory	129,225	15,139,280

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Debts of the States of Brazil 1920

State	Internal	External
Goyaz		
Maranchoa	2,546	715,436
Motto Grosso	1,820	
Minas Geraes	60,141	7,401,220
Para'	7,773	2,932,774
Parahyba		
Parana'	15,150	2,334,625
Pernambuco	20,466	3,669,322
Pianhy	516	
Rio de Janeiro	22,779	4,936,500
Rio Grande do Norte	760	394,006
Rio Grande do Sul	37,172	
Santa Catharina	4,730	2,512,869
Sao Paulo	76,297	6,132,037
Sergipe	3,885	
Total	465,482	71,601,540
Total ~~Internal~~ Debt,		465,482
gold milreis		72,067,022

Principal External Loans of Brazil

Date of issue	Interest Rate	Original Issue	Amount Outstanding
1883	4 and 1/4	$ 22,400,052	$ 13,212,797
1888	4 and 1/2	30,667,851	20,322,997
1889	4%	96,606,190	85,070,621
1895	5%	36,242,540	33,729,133
1898	5%	41,948,719	40,610,638
1900	4%	80,935,991	62,995,788
1903	5%	41,395,000	37,489,747
1908	5%	19,400,000	8,957,878
1910	4%	48,700,000	47,567,725
1911	4%	21,915,000	19,688,923
1911	4%	11,688,000	11,688,000
1913	5%	53,570,000	53,570,000

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Principal External Loans of Brazil

Date of Issue	Interest Rate	Original Issue	Amount Outstanding
1914	5%	$ 48,516,055	$ 48,516,055
1921	8%		50,000,000
1922	7 and 1/2		43,760,000
1923	7%		121,500,000
		Total	$ 698,680,302

Table of Annual Deficits

1908	$ 22,320,960
1909	20,974,400
1910	31,928,960
1911	42,390,720
1912	47,553,600
1915-19 inc.	343,128,308
Total 1908 to 1922 inc. in excess of	$600,000,000

It requires no occult power to read in the foregoing figures the fact that to date the financial administration of the Brazilian Government has not been a success.

Taxation

The chief source of federal revenue is an import tax on commodities coming into the country. This is not a very satisfactory source of revenue as it fluctuates in amount considerably from year to year.

The chief articles taxed are flour, condensed milk, rubber articles, watches, paints, varnishes, typewriters, ice-chests, pianos, weighing machines, electric fans, cement, corsets, dried fruit, school furniture and desks. There are other sources of national revenue as is indicated by the following table of revenues for the year 1920.

Brazilian Federal Revenues - 1920

Revenue	Gold milreis	Paper milreis
Import duties	96,935,000	92,800,000
Consumption tax		171,740,000
Circulation tax	50,000	106,500,000
Industrial revenue	2,900,000	141,751,000
Miscellaneous	2,020,000	49,721,000
Total	102,005,000	624,761,000

In the states the chief reliance for resources is the export tax. This tax varies with the article and the state sometimes running as high as 20% ad valorem. Foreign competition is rapidly forcing a readjustment of export taxes on certain articles.

There is a 5% Brazilian government tax on dividends of domestic corporations. This is not effective on foreign concerns. Domestic and foreign corporations alike are subject to the municipal taxes of the Federal District in which they are located.

From the investment standpoint the tax situation in Brazil becomes significant only when we consider it in relation to the expenditures of the national government and in relation to population. The figures given concerning the country's financial history show conclusively a fundamental weakness of long standing, the inability of the nation's receipts from taxation to meet the current expenditures. These figures certainly throw a most depreciating light upon the credit obligations of the Federal Government as investments. It is true that even in default the interest charges have eventually been met. One must remember, however, that this was only effected through further borrowings. The funding of interest charges on a national debt is but "Robbing Peter to pay Paul".

The Banking and Currency Systems.

The oldest bank in Brazil was founded in 1809. This bank, the Banco do Brazil, after many years of varying success was reorganized in 1905. It is a semi-government institution and is located in Rio de Janeiro. It pays dividends of from 8 to 10 per cent. Its deposits are almost one tenth of the entire deposits in banks in Brazil, both foreign and domestic. Although there are many foreign banks considerably more than half of the banking is done by the Brazilian institutions. The banking system of Brazil seems adequate.

Brazil adopted the gold standard of currency in 1849. The monetary unit of the country is the gold milreis which is divided into 1,000 reis and is written 1$000. It represents 0.82207 grams of fine gold and has a par value of $0.5462 in United States currency. Gold is coined in denominations of 5, 10, and 20 milreis. Subsidiary token money is coined from silver, nickel and bronze.

The actual currency is the paper milreis, which represents a weight of 0.48816 grams of fine gold, valued at $0.3244 United States currency. Its actual exchange value has been subject to fluctuation according to the amount of gold in the conversion office, the balance of trade, war stringencies, and active speculation in exchange.

Prior to 1907 the Brazilian currency was inconvertible paper. On December 22, 1906, a conversion fund was established by a scheme of collecting import duties partly in gold and partly in paper.

Table Showing Outstanding Paper Money
Internal Debt

Year	Amount in milreis - Inconvertible
1889	186,000,000
1897	702,000,000
1904	674,400,000
1911	612,519,626
1914	450,000,000
1915	1,157,527,725
1918	1,534,252,456

This amount, 1,534,252,456$000, was reduced to about 1,000,000,000$000 in 1919, but has since been increased to a figure greater than any hitherto reached.

The effect of this rapid increase in the amount of paper in circulation since 1914 is partially reflected in the following table which shows the New York Exchange quotation on the paper milreis.

New York Exchange Quotations
Brazilian Paper Milreis

Year	Quotation (average)	Percent. of par
1915	$0.2372	
1916	.2398	
1917	.2539	
1918	.2564	82.56%
1919	.2674	82.41
1920	.2251	69.40
1921	.1312	40.43
1922		
1923 (To date)	.1150	36.3

The price of the paper milreis will continue to drop as long as the Brazilian Government continues to issue paper money. Present indications seem to show that this practice may soon stop. However, this is guess work and cannot be relied upon.

Foreign Trade

Agriculture holds first place in Brazil. The industries closely related to it form the elemental factors upon which the foreign trade is based. The United States of Brazil, combining as it does one of the most immense tropical regions of the world with its interior sub-tropical plateau, and its fertil temperate areas of the south, has always relied upon the products of the field and forest as its great source of wealth.

Among the manufactured articles, other than food stuffs, are furniture, hats, clothing, matches, leather goods, and other necessities of life. All of these add somewhat to Brazil's foreign trade activities.

Brazil is very fortunate because of her vast natural resources, such as mineral products and extensive forests. Due to the difficulty of reaching the mineral areas their development has been retarded. Attempts are now being made to open up these sections. Already considerable quantities of iron ore have been taken from Minas Gereas. A few gold mines are being operated regularly and the diamond fields are seeing activity. The production of managanese, monazite and other minerals is steadily addimg to the industries of Brazil. During 1919 the forests yielded about $3,500,000 worth of lumber for the export trade. The lumber industry is still young.

Table Showing Ten Chief Exports 1916-1920

Article	Value in thousands of pounds sterling				
	1916	#917	1918	1919	1920
Cotton	.119	.792	.524	2.437	5.502
Sugar	1.305	3.859	5.459	3.714	6.147
Rubber	7.496	7.484	3.997	6.239	3.715
Cocoa	2.500	2.535	2.158	5.602	3.821
Coffee	29.280	23.054	19.040	72.607	52.821
Hides	4.353	4.224	3.990	6.043	4.021
Tobacco	1.507	1.201	2.116	4.224	2.405
Mate	1.885	1.817	2.151	3.200	2.972
Skins	.825	1.091	.669	3.072	2.989
Chilled meat	1.414	3.184	3.246	3.592	4.064
Ten Articles	50.684	49.241	43.350	110.730	88.457
Miscellaneous	5.778	13.790	17.817	19.355	19.064
Total exports	56.462	63.031	61.167	130.085	107.521

By taking each of the above articles separately we could determine the reasons for the increase or decrease shown from year to year. It is noticable that rubber, formerly the second most important export, has fallen off greatly. This is principally due to the increased output of the plantations of the Far East. Coffee, by far the most important export, fell off greatly as a result of the World War. It has regained much of this loss tho not all. This condition is brought about by the loss of much of the European market. The low total exports of 1920 as compared to 1919 is, likely, due in part to the general world-wide price fall. The most significant fact to be gleaned from this record of exports is the fact that tho a great part of the exported commodities are staples their export value is subject to wide and violent fluctuation.

Table Showing Rubber Production of the World and the Effect of the Increasing Importance of Plantation Rubber on Rubber Production in Brazil

Year	Brazil Long Tons	Other Sources Long Tons	Plantation Long Tons
1900	26,750	27,136	4
1905	35,000	27,000	145
1910	40,800	21,500	8,200
1915	37,220	13,615	107,867
1917	39,370	13,258	213,070
1919	34,285	7,350	340,225
1921	30,000	5,000	250,000

Table showing Principal Countries to Which Exports are Made

Countries	Value in thousands of pounds			
	1917	1918	1919	1920
United States	28,013	21,287	54,080	44,987
France and Colonies	8,326	5,564	27,268	12,850
British Empire	7,812	6,169	9,484	8,759
Argentine	5,707	9,297	5,864	7,094
Italy	4,854	6,421	3,821	7,827
Uruguay	4,685	6,362	5,708	4,778
Germany			702	6,184

Exports are also made to Spain, Portugal Sweden, Belgium, Holland and Austria-Hungary.

The above table shows that Brazil trades with all of the more important countries of the world. The United States takes more of her exports than any other country. These exports are likely to continue in as much as we need the Brazilian products. Experience shows however that the volume and value of these exports fluctuates viciously when considered from the revenue standpoint.

Table Showing Principal Countries From Which Imports Are Made

Countries	Value in thousands of pounds			
	#916	1917	1918	1919
United States	15,840	21,065	18,984	37,423
Great Britian	8,229	7,979	10,784	12,737
Argentine	5,675	5,702	10,020	12,032
France	2,095	1,785	2,519	2,967
Portugal	1,872	1,436	2,028	2,365
Italy	1,411	878	1,127	1,067
Newfoundland	691	747	1,284	1,233
India	652	984	662	1,692
Norway	411	361	230	380
Germany	17	48		201
Uruguay	601	868	2,208	1,742
Spain	469	601	937	872

Brazil also imports from Switzerland, Sweden, Canada, Netherlands, Mexico, Paraguay, Denmark, Belgium, and Japan.

The principal imports are food products, machinery, steel and iron, textiles, woods, pelts and skins. Brazil with its undeveloped resources has the potentiality of depending less upon foreign countries. Certain factors such as climate and the people will always have a retarding tendency on this development.

Table of Imports and Exports and Balance of Trade

Year	Values in thousands of paper milreis		
	Imports	Exports	Balance
1913	1,007,495	972,731	(-) 34,764
1914	561,853	750,980	189,127
1915	582,996	1,022,634	439,633
1916	810,759	1,136,888	326,129
1917	837,738	1,192,175	354,437
1918	989,405	1,137,100	147,695
1919	1,334,258	2,178,719	844,461
1920	2,078,046	1,752,247	(-) 325,799

The above figures show an unfavorable balance of trade in 1913 and 1920. Exact figures are not available for 1922 but it is estimated that Brazil may have a favorable trade balance amounting to $60,000,000.

Resources and Population

Brazil is potentially one of the world's great storehouses of raw materials. Her forests are of almost immeasurable extent, her agricultural lands if developed could maintain a population many times that of the South American continent at the present time. She is possessed of rich mineral deposits. And yet for all of that she suffers from a handicap which will ever tend to retard her development. That handicap is climate. A large portion of this great state is uninhabitable. Another great portion is very sparsely populated by the native Indian. The unhealthful conditions of the great Amazon country are chiefly responsible for Brazil's loss of the rubber trade. The cultivated plantations of the Far East can produce a gum of better quality more cheaply than can the natural forests of the Amazon. The Amazon country is a natural rubber producer. It is not adaptable to the cultivation of the crop because no white man can live in the interior. Climate has been the ruination of what would have otherwise been Brazil's richest trade.

The Amazon is probably the world's greatest inland water transportation system. Properly developed it will float the products of the western coast across the entire continent to the eastern exportation ports. And yet, as a transportation system the climate makes it of little avail. Too frequently in writing on Brazil the eye is on the map and too little regard is had for realities. While it is true that Brazil would seem to be potentially a very rich state with a future of great promise proper recognition must be given the difficulty of developing this latent richness.

The climatic conditions prevalent in much of Brazil are reflected in the population. Less than one half of the 30,492,000 population have the white man's blood in their veins. Fully two thirds of these are halfbreeds of Indian and Negro mixture. The remainder of the population are Negroes and Indians. It is said that there are today 3,000,000 Indians in Brazil who are practically savages.

There has been considerable attempt at education, although as a whole educational development has been, as one might expect, backward. Each state exercises control over education within its boundries. Private schools are allowed. The instruction in public schools must remain secular. Education is free but for the most part not compulsory. The Federal Government encourages industrial education by giving aid to state, municipal and private schools meeting certain requirements. At the present time there are about 700,000 students in attendence at the primary schools, and some 40,000 are enrolled in the secondary and normal schools. There are no universities. Like its climate so is lack of man-power long going to be a drawback to the development of Brazil. The two taken together form a serious obstacle to future prosperity.

Growth of Brazilian Population
(estimated)

1850 - - - - - - - -	7,000,000
1860 - - - - - - - -	8,000,000
1912 - - - - - - - -	25,000,000
1921 - - - - - - - -	30,492,000

Summary and Evaluation of Brazilian Bonds.

From the standpoint of the average American investor Brazil does not offer a fertil field for capital commitment. The securities available are those of the national, state and municipal governments. The loans have in some cases been contracted for purposes of internal development, but it must be remembered that many of the Brazilian borrowings forcibly demonstrate the inability of the government to finance its ordinary expenditures from internal revenues. Twice the national government has defaulted to its foreign creditors. Both defaults have eventually been covered. In both cases tho, eventual payment has been effected by more external borrowings.

Brazil has a large external debt. She has an increasing internal obligation in her paper currency which she continues to inflate. Her inability to balance her budget is notable. Many of her sources of revenue have fallen off, some of the more important of them permanently. The future must of necessity be a long period of slow reform and tedious development.

The Argentine Republic

Argentina, or the Argentine Republic, comprises some fourteen provinces and ten territories, with an extensive seaboard on the east coast of South America. The climate is rather temporate and healthful. The chief products are wheat, maise, oats, linseed, sugar, wool, hides, cattle, sheep and horses. The export of frozen beef and mutton is an important industry. The exports are made up entirely of pastoral and agricultural products, with the exception of quebracho (a tree with bright red bark which is used for dyeing), copper and manganese. There are 22,000 miles of railroad and about twice as many miles of telegraph lines. The country is about 1,153,418 miles in area, more than one third the total area of the United States. The population in 1920 was 8,533,431, in 1915 it was 7,979,259 and in 1895, 3,954,911. At present the population is equal to about 7 persons per square mile, a rather small figure when compared to 32 persons per square mile in the United States and 370 people to the square mile in Great Britian. The following figures showing the nationality of the Argentine people are indicative of their character.

Nationalities of Argentine Population	
Argentines	5,527,285
Italians	929,863
Spaniards	828,701
Russians	93,634
Uruguayians	86,428
French	79,491
Turks	64,639
British	27,692
Germans	26,995
Swiss	14,345
Portuguese	14,143
Indian	15,000
Negro	500

From the economic standpoint the majority of the people are of a desirable type. They are home loving and thrifty and seem to have a desire to build up the country both industrially and politically. From the standpoint of moral integrity in affairs commercial they are probably superior to the peoples of any other South American state. The laws of the country would seem to favor the employment of both domestic and foreign capital. The recent income tax, for example, exempts the incomes of foreign capital taxable at home.

Political History.

Argentine's political history is typical of that of the Latin American countries of the southern continent. In more recent years she seems to have enjoyed a greater degree of solidarity than some of them. Prior to 1816, when she declared her independence, Argentine was under Spanish rule. The years 1816 to 1852 constitute a period of political disturbances and uprisings at times almost amounting to anarchy. The present constitution dates from the year 1853 with important changes in 1860, 1866 and 1898. Since 1853 there has been a growing tendency toward stabilization and much has been accomplished along this line. There is still much to be done for financial and monetary improvement. The following tables go far to indicate Argentine's present condition and give us something of an understanding of what we may expect of the morrow.

Table Taken From "El Comercio Exterior Argentino" to Show Relation Between Population, Foreign Trade, Revenue and Expenditure of the National Administration, Public Debt.

Year	Population	Foreign Trade Gold Pesos	National Revenue Gold Pesos	National Expenditure Gold Pesos	Deficit Balance Gold Pesos	Public Debt Gold Pesos
1864	1,530,954	45,510,522	7,005,328	7,119,331	114,003	
1865	1,587,101	56,410,745	8,295,071	22,517,147	14,222,103	
1866	1,645,436	64,142,267	9,568,555	13,702,590	4,134,035	
1867	1,706,159	71,988,314	12,040,287	14,110,077	2,061,790	
1868	1,769,370	72,122,251	12,496,126	16,693,406	4,197,280	
1869	1,836,490	73,644,891	12,676,680	14,953,431	2,276,751	
1870	1,882,615	79,347,697	14,833,904	19,439,967	4,606,063	47,505,986
1871	1,936,569	72,526,967	12,682,155	21,166,230	8,484,075	84,265,110
1872	1,989,880	108,835,746	18,172,380	26,462,786	8,290,406	80,012,729
1873	2,045,048	120,832,329	20,217,232	31,025,070	10,807,868	78,480,297
1874	2,102,284	102,368,085	15,974,042	29,784,096	13,810,054	77,183,464
1875	2,161,639	109,633,594	17,206,747	28,567,861	11,361,114	82,877,423
1876	2,223,189	84,160,736	13,583,633	22,153,048	8,569,415	86,813,567
1877	2,287,005	85,213,368	14,824,097	19,924,961	5,100,864	82,230,897
1878	2,353,194	81,282,896	18,415,898	20,840,918	2,425,020	80,649,083
1879	2,421,827	95,721,151	20,961,893	22,523,159	1,561,266	77,738,976
1880	2,492,866	103,916,667	19,594,306	26,919,295	7,324,989	86,313,102
1881	2,565,040	113,644,199	21,345,926	28,381,224	7,035,298	107,075,511
1882	2,639,573	121,634,984	26,822,320	58,007,158	31,984,838	124,112,684
1883	2,716,836	140,643,804	30,950,196	44,831,378	13,881,282	128,047,256
1884	2,797,042	162,085,980	37,724,374	56,440,137	18,715,763	122,503,098
1885	2,880,111	176,101,069	26,581,118	40,515,080	15,933,962	113,381,896
1886	2,966,260	165,243,586	30,395,792	39,178,658	8,782,866	117,153,961
1887	3,056,835	201,773,945	38,209,229	48,205,071	9,995,842	141,714,849
1888	3,158,914	228,524,013	34,892,162	51,596,824	16,704,662	277,462,571
1889	3,265,577	254,715,239	38,169,506	55,770,588	17,601,082	295,159,833
1890	3,377,780	243,050,805	29,143,767	38,145,542	9,001,775	355,762,141
1891	3,490,317	170,426,780	19,498,953	33,664,842	14,165,889	370,103,701

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Year	Population	Foreign Trade Gold Pesos	National Revenue Gold Pesos	National Expenditure Gold Pesos	Deficit Balance Gold Pesos	Public Debt Gold Pesos
1892	3,607,103	204,851,500	32,597,078	38,685,227	6,085,149	425,470,775
1893	3,729,105	190,313,787	38,389,688	38,047,440	** 342,248	427,806,888
1894	3,856,728	190,476,611	34,178,105	40,114,452	5,936,347	393,395,710
1895	3,956,060	215,164,228	38,223,808	48,505,921	10,282,113	401,863,641
1896	4,071,438	228,965,607	42,008,415	78,212,817	36,204,402	421,504,885
1897	4,233,907	199,458,247	51,440,841	61,010,909	9,569,468	438,282,693
1898	4,357,803	241,258,358	53,158,969	121,289,634	68,130,665	454,165,102
1899	4,477,897	301,768,202	72,863,448	76,630,701	3,767,253	548,930,774
1900	4,607,341	268,805,481	64,858,210	68,580,237	3,722,027	447,191,888
1901	4,740,758	281,675,851	65,046,903	69,919,207	4,872,304	442,847,071
1902	4,871,792	282,525,983	65,463,843	85,334,716	19,870,873	423,965,488
1903	4,976,137	352,191,124	75,420,900	78,473,455	3,052,555	426,407,386
1904	5,103,602	451,463,494	83,037,636	85,781,115	2,743,479	426,553,343
1905	5,289,948	527,998,261	90,378,511	141,704,734	51,326,223	384,437,269
1906	5,524,017	562,224,350	100,704,306	118,911,294	18,106,988	379,560,388
1907	5,821,846	582,065,052	107,275,686	111,408,537	4,132,851	418,358,791
1908	6,046,500	638,978,077	111,862,072	111,048,768	** 813,304	398,940,617
1909	6,331,417	700,106,623	121,073,018	154,995,148	33,922,130	449,705,661
1910	6,586,022	768,423,875	133,093,687	180,947,941	47,854,254	452,790,667
1911	6,913,340	747,337,250	136,632,618	183,291,269	46,658,651	526,539,801
1912	7,147,361	948,530,371	148,001,248	211,108,412	63,107,164	531,498,109
1913	7,482,334	1015,383,105	153,691,749	177,513,150	23,821,401	544,721,819
1914	7,885,237	725,661,481	110.029,744	184,641,427	74,611,683	545,023,471
1915	8,002,494	887,667,285	101,310,566	175,968,753	74,658,187	537,582,830
1916	8,109,836	939,130,093	102,337,540	164,844,063	62,506,523	546,687,905
1917	8,215,777	930,491,227	100,427,296	171,411,307	60,964,011	595,410,399
1918	8,351,314	1302,069,240	130,925,566	185,263,367	54,337,801	578,224,999

Note - ** Surplus, no deficit

Argentine Public Debt			
Internal Debt Paper Pesos			
Year	Issued	Amortized	Balance on Dec. 31
1901			89.610.983
1902	2.892.600	8.028.993	84.474.590
1903	420.500	7.767.590	77.127.500
1904	19.873.500	7.826.600	89.174.400
1905	76.364.300	77.355.000	88.183.700
1906	1.000.000	940.000	88.243.800
1907	11.939.740	1.681.300	98.502.240
1908	7.244.960	1.206.500	104.540.700
1909	12.000.000	1.295.400	115.245.300
1910	7.610.120	1.430.560	121.424.860
1911	20.000.000	1.758.920	139.655.940
1912	30.000.000	2.046.800	167.619.140
1913	13.543.600	3.699.600	177.493.140
1914		3.379.700	174.113.440
1915		4.940.100	169.173.340
1916	50.000.000	4.994.500	214.178.840
1917	13.630.400	4.513.740	223.295.500
1918		4.236.200	219.059.300
Internal Debt Gold Pesos			
1901			17.863.000
1902		459.600	17.403.400
1903		776.900	16.626.500
1904		82.500	16.544.000
1905		75.500	16.468.500
1906		68.500	16.400.000
1907	51.876.100	12.770.400	55.505.700
1908		17.306.900	38.198.800
1909	50.000.000	714.900	87.483.900
1910	6.048.000	1.026.900	92.505.000
1911	70.000.000	1.138.000	161.367.000
1912		1.615.300	159.751.700
1913		1.981.900	157.769.800
1914		1.799.800	155.990.000
1915		2.145.400	153.844.600
1916		2.573.300	151.271.300
1917	52.800.000	1.535.700	202.535.600
1918		3.525.000	199.010.600

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External Debt Gold Pesos

Year	Issued	Amortized	Balance on Dec. 31
1901			386.451.295
1902		5.368.533	381.082.761
1903		5.237.975	375.844.786
1904		5.072.199	370.772.667
1905		41.604.725	329.167.941
1906		4.834.825	324.333.116
1907		4.821.010	319.512.105
1908	281.469	5.049.666	314.743.909
1909	1.899.464	5.129.544	311.513.829
1910	747.853	5.402.953	306.858.729
1911	2.537.487	5.676.430	303.719.786
1912	256.536	5.982.336	297.993.986
1913	17.416.047	6.554.996	308.855.037
1914	10.415.404	6.846.885	312.423.556
1915	3.987.648	7.109.243	309.301.960
1916	542.808	8.566.852	301.277.915
1917	605.808	7.258.943	294.624.779
1918		11.796.472	282.828.306

Internal and External Debt Gold Pesos

Year	Issued	Amortized	Balance on Dec. 31
1901			404.314.295
1902		5.828.133	398.486.161
1903		6.014.875	392.471.287
1904		5.154.619	387.316.667
1905		41.680.225	345.637.441
1906		4.903.325	340.733.116
1907	51.876.100	17.591.410	375.017.805
1908	281.469	22.356.566	352.942.709
1909	51.899.464	5.844.444	398.997.729
1910	6.795.853	6.429.853	399.363.729
1911	72.537.487	6.814.430	465.086.786
1912	256.536	7.597.636	457.745.686
1913	17.416.047	8.536.896	466.624.837
1914	10.415.404	8.626.685	468.413.556
1915	3.987.648	9.254.643	463.146.560
1916	542.808	11.140.152	452.549.215
1917	53.405.808	8.794.643	497.160.380
1918		15.321.472	481.838.907

Development of Foreign Trade in Argentine

Year	Population in even thousands	Imports gold pesos in even thousands	Exports gold pesos in even thousands	Total gold pesos in even thousands	Balance gold even thousands
1888	3.158	128.412	100.111	228.524	- 28.300
1889	3.265	164.569	90.145	254.715	- 74.424
1890	3.377	142.240	100.818	243.059	- 41.421
1891	3.490	67.207	103.219	170.426	36.011
1892	3.607	91.481	113.370	204.851	21.889
1893	3.792	96.223	94.090	190.313	- 2.133
1894	3.856	92.788	101.687	194.476	8.899
1895	3.956	95.096	120.067	215.164	24.971
1896	4.071	112.163	116.802	228.965	4.638
1897	4.233	98.288	101.169	199.458	2.880
1898	4.357	107.428	133.829	241.258	26.400
1899	4.477	116.850	185.917	301.768	68.066
1900	4.607	113.485	154.600	268.085	41.115
1901	4.740	113.959	167.716	281.675	53.756
1902	4.871	103.039	179.486	282.525	76.447
1903	4.976	131.206	220.984	352.191	89.777
1904	5.103	187.305	264.157	451.463	76.851
1905	5.289	205.154	322.843	527.998	117.689
1906	5.524	269.970	292.253	562.224	22.283
1907	5.821	285.860	296.204	582.065	10.343
1908	6.046	272.972	366.005	638.978	93.032
1909	6.331	302.756	397.350	700.106	94;594
1910	6.586	397.352	389.071	768.423	9.718
1911	6.913	405.019	342.317	747.337	- 62.702
1912	7.147	446.863	501.667	948.530	54.804
1913	7.482	496.227	519.156	1.015.383	22.928
1914	7.885	322.529	403.131	725.661	80.601
1915	8.002	305.488	582.179	887.667	276.691
1916	8.119	366.130	572.999	939.130	206.868
1917	8.215	380.321	550.170	930.491	169.848
1918	8.351	500.602	801.466	1.302.069	300.863

Argentine Foreign Trade by Countries 1918

Nations	Imports gold pesos .000 omitted	Exports gold pesos .000 omitted	Balance gold pesos .000 omitted
South Africa	1.938	4.839	2.201
Germany	221		- 221
Australia	33		- 33
Austria-Hungary	1		- 1
Belgium	159		- 159
Bolivia	1.642	1.298	- 344
Brazil	49.373	33.346	- 16.027
Canada	389	640	251
Cuba	3.221	329	- 2.891
Chile	8.343	8.634	291
Denmark	99	1.263	1.164
Spain	41.779	23.816	- 17.963
United States	169.507	165.152	- 4.355
France	25.954	113.052	87.098
Italy	20.009	40.281	20.272
Japan	15.208	2.807	- 12.401
Mexico	5.354	53	- 5.301
Norway	916	4.222	3.306
Netherlands	1.051	1.095	55
Paraguay	7.314	5.235	- 2.079
Peru	3.958	326	- 3.632
Portugal	1.024	30	- 994
French Possessions	64	4.441	4.377
British Possessions	6.176	187	- 5.989
United Kingdom	124.960	305.881	180.921
Russia	15		- 15
Sweden	3.278	4.457	1.180
Switzerland	3.206	23	- 3.183
Uruguay	4.538	15.011	10.474
Other countries	870	65.047	64.176
Total	500.603	801.466	300.864

Principal Exports of Argentine 1921-22

		1921	1922
Wheat	Tons	1,622,000	3,704,000
Corn	Tons	2,759,000	2,711,000
Linseed	Tons	1,308,000	899,000
Flour	Tons	45,000	90,000
Sheepskins	Bales	39,000	76,000
Wool	Bales	94,000	66,000
Beef	Quarters	4,311,000	4,664,000
Calfskins		296,000	1,174,000
Salt Hides		2,135,000	3,755,000
Quebracho logs	Tons	24,000	109,000
Quebracho extract	Tons	112,000	150,000

Chief Items of Revenue and Expenditure Year 1920

Revenue	(pesos)	Expenditure	
Imports	127,000,000	Congress	15,274,200
Exports	100,000,000	Ministers of Interior	59,479,426
Tobacco	43,000,000	Foreign affairs and Warship	4,941,074
Stamps	28,000,000	Finance	18,246,600
Patents	7,000,000	Public Debt	124,366,484
Alcohol	12,400,000	Justice and Education	88,280,385
		Army	44,145,357
		Navy	36,459,120
		Agriculture	16,516,060
		Public Works	14,364,836
		Pensions	17,641,284
		Public Works	35,516,900
		Subsidies	13,195,968

Table of Receipts and Expenditures in Dollars

Year	Revenue	Expenditures
1912	$ 143,009,767	$ 171,832,028
1913	148,509,481	171,527,658
1914	106,319,697	178,415,581
1915	106,693,806	145,848,766
1916	109,876,701	166,839,874
1917	107,360,143	168,406,894
1918	164,082,493	168,878,713
1919	156,631,600	182,142,850
1920	233,863,440	208,319,200
1921	205,304,101	217,986,782

Total Argentine Debt Including Debts of the Provinces and Municipalities (dollars)

Year	Funded	Floating	Total	Interest
1913	$658,240,000	$74,158,000	$732,398,000	$35,818,000
1914	682,150,000	99,134,000	781,284,000	36,737,000
1915	722,165,000	76,672,000	798,837,000	36,737,000
1916	707,707,000	74,451,000	782,158,000	36,737,000
1917			776,100,000	

The consolidated debt of Argentine in 1921 amounted to 1,200,000,000 pesos without including a loan of 60,000,000 pesos which was authorized by the 1921 budget. The floating debt is estimated (1922) at 650,000,000 paper pesos. The per capita debt in 1921 was $97. This has since been increased slightly.

In December of the year 1922 the Argentine Congress was in session. Problems of finance were discussed in detail. The deficit for the current year (1922) was estimated at 120,000,000 paper pesos and the total floating indebtedness of the Federal Government, including semiautonomous obligations such as street railways, the National Sanitary Works, arsenals, etc., was calculated at about 1,000,000,000 paper pesos. This large sum it is expected will be covered by an internal bond issue.

The finance program as now reported includes the following loans: an internal loan of 500,000,000 paper pesos in Treasury bonds, interest at 3%, and amortization 2%, banks to participate up to 10% of their deposits; an internal loan of 200,000 paper pesos, interest 6%, amortization 1%; an external loan of 150,000,000 gold pesos.

Summary

Argentine is today probably the most stable of the South American nations. Her natural resources are great. Her climate is healthful and productive. Her people are more industrious, more ambitious than the average Latin-american. Her laws and customs are fair not only to home industry but likewise to the foreigner and to foreign capital within her bounds. The financial history of Argentine reveals her as a borrowing nation as far back as 1824. Unforseen internal political disturbances tore the country for many years. There was no possibility of maintaining the agreed service of these early obligations. But later, years later, Argentine paid, paid in full. These payments were made for the most part out of further borrowings. Since the middle of the nineteenth century Argentine has made no external borrowings for the perpetuation of war. It is true that borrowed funds have not always been employed as was the original intent at the contraction of the obligation. But a large portion of external borrowings has gone for internal improvement. When not so employed such funds have been used to meet current deficits or to fund interest obligations.

But twice since the year 1856 has the Argentine Republic been able to meet current expenses from current revenues. The chief sources of revenue are the import and export duties. These duties are derived from a variety of commodities, and tho this tends to give stability to the income the figures already given show that the condition is far from satisfactory. In addition to the import and export duties certain internal taxes have recently been proving very profitable.

The banking system of the country is at present suffering from agricultural over-expansion. It was this cause which brought about the failure of the great French bank in 1914. The other banks of the country must face this type of liquidation sooner or later. When that time comes Argentine is bound to experience at least temporary financial difficulties.

All in all, Argentine probably offers the most favorable investment conditions of any of the South American states. And even she cannot balance her budget. The year 1920 saw a rather successful attempt at this but it was the second time in seventy years that it had happened and it has not been repeated since. The national government has frequently found it necessary to assume or guarantee the obligations of the lesser political subdivisions and the municipalities. The burden thus incurred has recently become so great that the federal government served notice that while it would do all in its power to protect the credit of its subdivisions it no longer would be responsible for additional obligations incurred by them. Despite her comparative stability it would hardly seem proper to advise the average American investor to make commitments of funds in a country whose current expenses commonly exceed current revenues and where the burden of subdivision debt is so heavy that the federal government can no longer extend its protection to it. Argentine offers wonderful opportunities to certain types of investors and speculators, but they are opportunities ill fitted to the needs of our Average American Investor.

Chile

Chile is a state of Spanish origin. It lies between the Andes and the shores of the Pacific ocean. It is about 3,000 miles in length and 100 miles in width. It's chief resource is the nitrate monopoly which it possesses. There are also great copper deposits. These are not as yet well developed. In the central part of the country agriculture is the chief industry. Wheat and other grains are the chief product of the region. In the south cattle raising is being encouraged. There is also a considerable forested area altho this has not yet been utilized commercially.

Like Argentine and Brazil, Chile has been a republic for some time. The laws of the country protect well both domestic and foreign capital. Their only weakness from the commercial standpoint seems to be the inadequacy of statutes concerning the use of the bank check.

The government, tho continually changing as to personnel, seems to be fairly stable as to policies. The political leaders are of Spanish extraction and are of an agressive nature. The people are for the most part a non-ambitious folk without either social or political aspirations. Altho education is free it is estimated that about 80% of the population is illerate.

Chili has for years been at swords points with her neighbors to the north, Bolivia and Peru. The nitrate fields and the copper deposits are the cause. Uprisings along the northern boundary are being continually reported. The latest of these was in February of 1923. Chili originally took this territory from her neighbors by force, and the wound still rankles.

Chili has enjoyed a rather satisfactory financial history. She has never repudiated nor defaulted an external obligation, and has been borrowing from Europe for ninety-five years. Her current revenues have, in the main, taken care of running expenses and it is only in recent years that Chili has experienced a deficit. Her external borrowings have, for the most part, been for internal development. She has felt justified in borrowing for this purpose because of the stability of her income which permits the accepting of fixed liabilities, obligations.

The outstanding feature in the analysis of Chile's status is the fact that she is a one-product country. Ninety percent, of her gold income is derived from an export tax on nitrates. This sum comprises fully 50% of her total income. Chili has a world monopoly of the nitrate industry. She will retain this position until new deposits are uncovered or until science developes some other means of producing this commodity. As a result of this situation Chili has been able to levy heavy export duties on this commodity without disturbing her markets. The weakness of the situation was well demonstrated during the World War. In the early months of the war the inability to dispose of nitrates caused an almost total cessation of the industry. Later she reached approximately a 50% production. The outcome of this situation was a falling off in national revenue that brought about serious deficits in the national budget. When the time comes that Chile's grip on the nitrate market is broken, and there is reason to believe that this day is not so far distant, the finances of the national government will experience a revolution. This will be particularly serious in the case of Chili because she is not lavishly endowed with a diversity of natural resources. Her copper possessions are very important. With the exception of the United States she is the worlds largest source of this metal. The deposits are for the most part owned by citizens of the United States. It is doubtful if she will be able to employ copper in the way that she has nitrates as a source of revenue. The competition of foreign sources of supply will preclude this. While Chili is possessed of considerable wealth in her agricultural and forest lands, this, as a source of revenue, would be very inadequate. Aside from her mineral deposits Chile's greatest natural resource is the power that may be developed from the many accessable mountain streams that quickly find their way to the ocean. She has abundant power there. Also, authorities agree that there are considerable deposits of rich iron ores. If Chili should loose her mineral monopoly her next best source of national wealth would be in the development of industrial enterprises. The weakness of this situation is the present lack of market. Never-the-less, the day may readily come when Chili will be the manufacturing state of South America. Surely, if the present sources of national income should be depleated, the development of industry will be her only salvation.

A careful analysis of the Chilean financial situation leads the writer to believe that what has in the past appeared to be a day of perfect sunshine is in reality the silver lining of a heavy cloud. As time goes on these clouds seem doomed to settle. As long as Chili can maintain her throttle hold on the world's nitrate supply her financial problems are less serious than those of her sister states of the South American continent. When this source fails her, look out for stormy weather. Depending as she has upon her export revenues her people are unaccustomed to a heavy tax burden. Their reaction to a change would probably be such as to make the results of direct taxation questionable. From the investor's standpoint, just now the sun seems to be fairly bright in comparison to weather conditions through out the continent in general. But when the barometer shows signs of falling, the investor should beware lest he enjoy a soaking which will likely reach the skin.

The following figures are given in support of the above analysis.

Chilean Revenue 1921

Source	Gold pesos
Nitrate export dues	101,075,000
Iodine and borax dues	1,500,000
Consular dues	3,000,000
Treasury revenue	2,000,000
Interest on municipal loans	1,407,000
Total	108,982,000

Source	Paper pesos
Customs and bonds	50,000,000
Surcharge of 50%	25,000,000
Despach of cases	2,000,000
Stamp tax	18,000,000
Posts and telegraphs	12,800,000
Tobacco taxes	18,000,000

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Wines, beer and spirits	7,000,000
Property taxes	20,000,000
Death taxes	3,600,000
Bank. taxes	2,500,000
Drainage Com.	2,000,000
Insurance Cos.	1,000,000
Land rents	1,400,000
Ship charters	1,000,000
Mint revenue	2,500,000
Drinking Water Con.	6,266,900
Aricas-LaPaz R.R.	6,299,000
Treasury Revenue	7,000,000
Total paper pesos	189,765,900
Gold Pesos	108,982,000
Total Revenue	298,747,900

Chilean Expenditures 1921

Department	Paper pesos	Gold pesos
Interior	73,224,316	176,732
Foreign Relations	2,759,933	2,085,759
Justice	12,306,275	
Public Instruction	46,414,388	239,560
Treasury	35,437,212	48,648,192
War	61,909,887	386,162
Navy	32,497,738	4,032,045
Ind. and Pub. Works	24,870,265	82,549
Railway	6,804,333	1,833
Total	281,607,869	49,154,835

Chilean Revenues and Expenditures 1916-21
Pounds Sterling

	Revenue	Expenditure
1916	13,891,101	12,142,096
1917	16,020,596	14,423,554
1918	18,743,250	16,621,210
1919	9,380,829	13,750,581
1920	20,545,054	33,264,484
1921	24,096,225	27,153,937

Outstanding External Loans of Chili

Government Issues

Year	Rate %	Amount issued	Amount outstanding
1885	4 and 1/2	808,900	564,000
1886	4 and 1/2	6,010,000	4,206,700
1887	4 and 1/2	1,160,200	817,500
1889	4 and 1/2	1,546,392	1,265,320
1892	5	1,800,000	1,447,300
1892	6	194,000	99,820
1893	4 and 1/2	630,000	514,400
1895	4 and 1/2	2,000,000	1,661,300
1896	5	4,000,000	3,436,700
1914	5	1,500,088	1,500,088

Government Guaranteed

1896	5 and 1/2	200,000	95,300
1900	4 and 1/2	260,000	220,260
1905	5	1,350,000	1,256,700
1906	4 and 1/2	3,700,000	3,195,840
1909	5	3,000,000	2,934,700
1910	5	2,600,000	2,484,940
1911	5	5,500,000	4,948,200
1913	5	1,118,945	1,118,945

Additional external issues of municipalities, districts etc. 67,758,000

Imports and Exports 1920 in Gold Pesos

	Imports	Exports
Products of mining	29,381,030	656,254,458
forestry	3,411,992	5,555,020
live stock	12,299,698	46,764,153
agriculture	30,768,110	32,584,022
Foods	43,293,167	24,562,824
Textiles	117,141,233	541,552
Chemical products	52,276,533	1,001,513
Metals	41,602,246	13,197
Machinery	33,259,149	

Imports and Exports 1910-1921
U.S. Gold Dollars

	Imports	Exports
1910	20,381,138	9,981,278
1911	20,230,463	14,934,955
1912	22,297,192	15,363,738
1913	29,553,823	16,616,912
1914	24,238,713	13,667,618
1915	37,284,043	17,816,114
1916	82,123,995	33,383,499
1917	142,597,929	57,549,304
1918	166,082,920	66,404,300
1919	82,442,364	53,471,683
1920	97,998,627	43,250,320
1921	139,175,414	161,969,895

Chile's chief exports are minerals, nitrates, iodine, copper and silver. These, with the exception of copper, are all subject to export taxation. The revenue consideration rules in all Chilean export and import taxation. The condition as to stability of such income we have already noted.

The more important imports are textiles, mineral products (iron and steel, stones and earths, other metals, precious metals and jewelry), oils, colors, combustibles, machinery and implements, vegetable products, animal products (live, industrial, food stuffs and manufactures), paper, wine, spirits, beer, mineral waters, syrups, vinegar, drugs, chemical products, arms and explosives. The most of these imports are taxed and being chiefly necessities yield a rather steady income.

Like all Latin American countries Chili has a paper and gold monetary standard. Chili is like the others too in that its paper peso is much depreciated. At par it is worth 36.5 cents. At present it is fluctuating between 12 and 14 cents. There are now 302,000,000 paper pesos in circulation. A part of this issue is covered by a redemption fund. Redemption dates have been fixed several times but as yet redemption has never been realized, postponement always having been effected. At present the redemption date is set for the latter part of the current year.

An unprejudiced evaluation of Chilean bonds as investments for the average American investor puts these securities in a rather unfavorable light. They are the unsecured promises of a government, almost entirely dependent for its income upon a single industry, the success of which in turn depends upon a foreign market. This source of income has in the past served the purpose well, at least it did up to the year 1914. Chili is now experiencing current state deficits. If anything should happen to her single source of revenue, Chili would not be a desirable debtor.

Paraguay

There remains Paraguay to be considered as a field for American investment. We have already said several things about Paraguay in this connection. Of the four countries considered in this paper this relatively small state is the least admirable from the investor's stand-point. It is an inland republic being bounded on the north and east by Brazil and Bolivia and on the south and west by Argentine. Its area is slightly greater than that of the state of Texas, approximately 290,000 square miles. Its population of 900,000 people gives it a population density of 3.1 persons per square mile. The people are nearly all of Indian descent, and with the exception of the cities, where Spanish is spoken, Indian is the common language.

The chief occupations of the country are agriculture and live stock raising, with some lumbering. The more important products are yerba mate, suggar cane, cotton, coffee, oranges, pineapple and tobacco. Cattle in considerable quantities are shipped alive. The lumber products are cedar, lapacho and quebracho. Practically all of the agricultural products are consumed within the country.

There are five so-called cities within this state. The largest, Asuncion, with a population of 90,000 represents about 25% of the total buying power of the country. Asuncion, tho possessing many modern conveniences, has neither a good sewerage system nor a water system.

Politically, Paraguay has endured a rather stormy career. The country was originally a part of Argentine and Brazil. It was settled long before the Buenos Aires region. When the wars of independence from Spain took place Paraguay gained her independence. Since that time she has seen many internal uprisings and revolts, the most marked of the later ones being the wars of 1881 and 1894. At the present time the country seems somewhat settled down.

Like its political history, Paraguay's financial existence has been rather hectic. In 1874, the Republic became bankrupt and the government went into default. The financial history of the next twenty years is well summed up in the following paragraphs taken from a report by Mr. W. L. Schurz in 1920.

"The next year (1875) the government redeemed about 1,494,600 pounds sterling of the 1872 loan, leaving a principal of 1,505,400 pounds sterling. For another decade the financial condition of the government was very low. In 1878 it was unable to borrow $50,000 from a bank and in 1882 it failed to secure a 250,000 pesos loan in Buenos Aires. Meanwhile, of course, the service on the bonds was suspended. In 1885 President Caballero sent his minister of foreign affairs to London for the purpose of making arrangements with the English bondholders. An agreement was signed with the agents of the bondholders, whereby the actual principal of the debt was reduced to 850,000 pounds in 2-4 % bonds. As an equivalent for the remainder of the debt the Paraguayan government ceded to the English creditors 500 square leagues of public lands, equivalent to approximately 2,177,344 acres."

"For the purpose of selling or developing these lands the Paraguayan Land Co. (Ltd.) was created. The land was apportioned among the bondholders at the rate of 145 acres to each 100 pounds of unpaid coupons. Land warrants of 100 pounds each had been issued for each lot of 145 acres, and these were exchanged for 100 pound shares in the land company, which was capitalized for 250,000 pounds. The land company also issued 61,710 five per cent. debentures, the proceeds of which were to be used to develop the properties. The lands assigned to the company have since been sold and the company liquidated."

"For a few years the service on the loan was met with regularity, but in 1892 payments were again suspended. In 1896 a new arrangement was concluded between the Paraguayan Government and the bondholders on the following terms:

(1) Interest on the 850,000 pounds of 1885 bonds

to be paid at the following rates, commencing with the July, 1896, coupon: For the next three years at one per cent per annum; for the next three years at one and one half per cent per annum; for the next three years at two percent per annum; for the next three years at two and one half per cent per annum, thenceforward until the extinction of the debt at three per cent per annum.

(2) Arrear coupons from July 1, 1892, to January 1, 1896, inclusive, to be funded at par into new bonds bearing the above rates of interest.

(3) A sinking fund of one half per cent per annum to commence from January 1, 1900.

(4) As security the Paraguayan Government to assign the export duties on yerba, while reserving the right to increase, diminish, or suppress such duties; in the latter case some other tax to be assigned for the service of the debt. One-twelfth of the sum required for the annual service to be placed in the hands of the bondholders' agent at Asuncion on the first day of each month. In the event of the yield from the yerba duties being inadequate to provide the necessary amount, the deficiency to be made good by the Government. Any surplus to go into the amortization fund.

(5) In the event of the monthly payments being suspended for a period of 12 months, the bondholders to

recover all their rights under the 1885 arrangement."

"By the agreement of 1896 the total debt, including principal and interest, was fixed at 995,600 pounds, for which bonds were issued."

When the war broke out in 1914, this debt had been reduced to 704,250 pounds sterling. The World War caused a very serious decline in revenue. The situation since the beginning of the war is described in the report of the "Corporation of Foreign Bondholders" for 1919.

"Between July, 1914, and December, 1915, only four monthly installments of the debt service were paid, but in May, 1916, the full service of interest and amortization for one-half year was remitted. After this no further payments were made until January, 1918, when the Government resumed remittance. The January, 1918, coupon and the sinking fund corresponding to the half year ending July, 1913, are unpaid".

The yearly service on the loan amounts to 178,086 gold pesos. Including the arrears of 31,691 pounds on the 1918 coupons, the debt at the end of that year amounted to 735,941 pounds sterling.

The Government was authorized by a law of November 27, 1912, to contract an additional foreign loan to the extent of 1,250,000 pounds. The proceeds of this loan were to be employed largely in repairing the damage done to the country by the revolution of 1911-12. The loan, to the amount of 440,326 pounds, was privately issued in London in 1914. It bears interest at 5% and provides for a 1% accumulative amortization fund. According to the Executive decree of September 1914, the annual service was to amount to 133,154 gold pesos. At the end of 1918 this debt amounted to 2,090,261 gold pesos, as against 3,454,212 pesos for the original London loan, or a total of 5,544,473 pesos. In 1918 117,109 pesos was remitted toward the annual service on this loan. The total arrears of the Paraguayan Government in its service on the London loans amounted in August, 1919, to approximately 466,000 pesos, equivalent to the prescribed service for about a year and a half, the yearly service on both loans calling for 311,240 pesos gold.

In addition to this external indebtedness, Paraguay has two other forms of obligation: its unrecognized foreign debt consisting of Argentine and Brazilian indemnities of 10,000,000 gold pesos each, and its internal debt. The unrecognized debt is the result of the war of Lopez. Paraguay refuses to accept these indemnities as legitimate obligations, and altho both Argentine and Brazil have agreed not to press their claims they refuse to make final renunciation of them. They exist in the form of a contingent liability. At present the internal debt amounts to about 2,000,000 gold pesos and 33,000,000 paper pesos as follows:

Items	Gold pesos	Paper pesos
Unsecured Government obligations	283,562	6,240,653
Old warrants for payments	276,929	9,516,090
6 per cent consolidateds of 1915	1,624,450	23,244,000
Fractions of same		825,587
Total	2,139,141	39,826,330

In addition to the above obligations there must be considered the 125,000,000 outstanding paper pesos and the contingent 20,000,000 gold pesos indemnity liability.

The following tables are indicative of Paraguay's true position.

Sources of National revenue for 1919	Gold pesos	Paper p's
Customs		
Importation:		
General duties		
Slingage		40,300,000
Storage		3,300,000
Internal revenue tax		200,000
		1,800,000
Total		45,600,000
Exportation:		
Duties on yerba		
Duties on hides	120,000	
Duties on quebracho extract	300,000	
Duties on lumber	150,000	
Duties on unrevised tobacco	120,000	
Slingage	5,000	
Duties on exportation of cattle	50,000	
and on sales to frigorificos		
Additional	120,000	
	45,000	
Total	910,000	

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Sources of National revenue for 1919	Gold pesos	Paper psos
Internal Service		
Storage		8,000
Slingage		120,000
Miscellaneous		15,000
Total		143,000
Internal Revenues		
Land Tax		6,000,000
Fines in connection with land tax		250,000
Stamped paper		1,500,000
Commercial stamps		1,800,000
Stamped paper for fines		125,000
Internal consumption stamps		2,200,000
Sanitary licenses		12,000
Inheritance tax		1,000,000
Sanitary tax	2,000	5,000
Tax on alcoholic liquors		8,000,000
Tax on public amusements		150,000
Registry of trade-marks		300,000
Tax on sale of cattle	420,000	
Tax on beer		380,000
Tax on slaughter of cattle		2,000,000
Miscellaneous		20,000
Total	422,000	23,742,000
Post Office and Telegraphs		
Postal money orders		1,000,000
Box rent		30,000
Parcel post		15,000
Telegraph messages		1,500,000
Miscellaneous		10,000
Total		2,555,000
Other Ordinary Sources		
Consular fees	22,000	
Land sales		70,000
Rent of lands		500,000
Restitutions of lands		100,000
Banking interest		60,000
University fees		30,000
Miscellaneous		220,000
Total	22,000	980,000

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Sources of National revenue for 1919	Gold pesos	Paper psos
Extraordinary Sources		
Sale of gunboat		1,240,000
Other sources		900,000
Total		2,140,000
Resume′		
Customs	910,000	45,743,000
Internal Revenues	422,000	23,742,000
Post office and telegraphs		2,555,000
Other ordinary sources	22,000	980,000
Extraordinary sources		2,140,000
Total	1,354,000	75,160,000

The currency consists of unredeemable paper pesos. The following table shows amount of paper pesos in circulation and the minted gold supply held in the country.

Year	Total paper pesos	Total gold pesos
1914	90,000,000	1,309,097
1915	115,000,000	1,651,778
1916	125,000,000	1,642,980
1917	125,000,000	2,530,601
1918	125,000,000	4,723,482

Fluctuations in Exchange Rates

Year	Minimum Rate	Maximum rate	Year	Minimum rate	Maximum rate	Circulation **
1893	5.38	6.50	1900	7.88	8.59	Paper
1894	5.17	7.67	1901	7.90	9.22	Pesos
1895	5.65	6.80	1902	8.40	10.22	Even
1896	6.05	6.15	1903	8.75	11.10	Millions
1897	6.05	6.96	1904	8.75	13.50	
1898	6.75	7.85	1905	10.20	11.00	
1899	6.48	8.15	1906	10.05	11.50	35

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Year	Minimum rate	Maximum rate	Circulation
1907	10.40	12.80	35,000,000
1908	12.80	17.50	35,000,000
1909	13.80	18:30	35,000,000
1910	12.60	16.00	35,000,000
1911	12.30	14.00	35,000,000
1912	14.50	17.50	64,000,000
1913	15.00	16.90	65,000,000
1914	17.00	23.00	90,000,000
1915	35.00	42.60	115,000,000
1916	25.00	39.54	125,000,000
1917	33.29	38.40	125,000,000
1918	18.17	35.81	125,000,000
1919			
9 mo	16.16	20,71	125,000,000

The 900,000 people of Paraguay probably represent the buying power of an American city of 150,000. The standards of living, tho improving, are still low. Because of the improvment there is a certain demand for textiles and hardware; clothing and jewelry of all sorts are selling well in the cities.

Tariffs have been raised from 30% to 60% generally with an additional 5% on alcoholic beverages. Imports and exports for the last few years are as follows:

	Imports	Exports
1915	5,149,465	5,558,807
1916	3,127,654	8,890,999
1917	7,002,036	8,851,919
1918	11,051,622	11,399,712
1919	14,662,273	17,228,131

Most of the imports into the country are necessities, such as clothing, foodstuffs, hardware and shoes.

The natural resources of Paraguay are difficult to estimate and because of the lack of reliable investigation what possibilities of wealth do exist have never been properly evaluated.

The low interest rates offered and the uncertainty of conditions have led to little interest on the part of investors. The devastating wars have so reduced the population that it is impossible for the people to make much progress. On the whole the securities of this country are highly speculative in type and will be so for years to come.

General Estimate of the South American Investment Field.

So much of individual treatment of South American countries as a field of activity for the average American investor. Let us now make an estimate of the field as a whole.

We have said that the evaluation of foreign securities in themselves follows lines similar to those of the investigation of domestic obligations. In addition there are certain considerations of importance that grow out of political, social and economic differences between countries. It is with these differences that this paper has been chiefly concerned. The political, social and economic conditions of greatest importance to the investor are: the laws and customs of the country, political integrity, the character of the people, their social and industrial education, the financial history of the state, methods of taxation, banking and the currency system, and resources and foreign trade. In addition to the above mentioned differences there is one further problem that is of perhaps greater importance than all others, the attitude of the home government toward foreign capital commitment. What is the South American situation along these lines? The conclusions reached in the following paragraphs apply to all of the South American continent in general except where noted or where previously discussed.

The laws of the South American states are, as a whole, fair and adequate both to domestic and foreign capital. The states are republics, their constitutions frequently being patterned after that of the United States of America.

The development of a business code and customs has not as yet attained the high degree that American business has reached. This is natural as these states lack both in matter of background and business instinct of its people. The bankruptcy laws uniformly place foreign capital at a disadvantage as compared to domestic but this likewise might be expected. It is however a true disadvantage from the standpoint of the investor in private South American securities. This fact is not extremely pertinent to our problem in that we do not contemplate the commitment of American funds in private enterprises.

Customs of the country are a more serious consideration. It is impossible to evaluate this situation except in the light of the character of the people themselves. South America owes its early development to the Spaniards. The better classes of today carry this same strain. They are impulsive, aggressive (in a certain way), given to political ambition and are not of the commercial type. It is far more satisfactory to this type of individual to acquire wealth through accession than through consistent, plodding development. The foreign influence that has been most effective in the development of the country is the later influx of the commercial European.

This foreign constituency is even today greatly in the minority. The native Indian, the black and the mixed breeds make up what we usually call "the people" of the country. These people are for the most part illiterate, indolent, without ambition of any kind and not susceptible to either social or industrial education and development. Considerable numbers of them are semi-savages.

This condition of population is one of the most serious disadvantages and dangers from the standpoint of the investor. Not only is the capacity for development thus limited but we find the great body of business custom which makes for financial stability lacking. In these respects the South American states have a long, long road yet to travel. It will be very difficult for them to get extensively beyond the extractive stage. It will be years before the labor handicap can be widely overcome to permit of industrial development and growth.

Nowhere in South America can taxation be dignified with the title, system. The nearest approach to such a condition is to be found in the reliance of Chili on her nitrate export tax. The effect of taxation on domestic industry has not as yet been serious, due to the rather universal reliance upon indirect taxes. However, prosperity in any particular line is sure to attract attention of fiscal officers. There has been some indication of a policy of granting relief to foreign capital engaged in internal development. It has never attained the importance of a definite policy and can only be considered as an indication. In this respect it may be well to call attention to the position of foreign capital engaged in the nitrate and copper industries. These industries are controlled by American and European interests, and the South American state has not hesitated to saddle upon them the burden of its maintenance. So far, the nitrate industry has been able to pass this burden along to the consumer. Real competition would make another matter of this condition, however. We have been speaking of taxation indications. Nothing could be more significant than this attitude toward the nitrate industry.

From the point of view of the investor in South American obligations that depend for their worth upon revenue from taxation the situation is even less favorable. This type of obligation practically dominates the field of South American securities available to the average American investor. Many of these states have been piling up a deficit for years and even those that have not in the past greatly experienced this difficulty are now having troubles. Those states which have a fairly clear past record owe their fortunate position to some condition such as the nitrate monopoly of Chili. Here in the United States we have come to recognize the transient nature of monopoly advantage to the investor. There is no reason to believe that South American conditions make for exceptions in this respect. National revenues, or more exactly the lack of them, is the second great argument against the South American bond.

The financial record of most of these states is eloquent evidence of this statement. It is exceptional to find among them one that has not experienced debt repudiation. Not only have they repudiated once, but in many cases several times. Some of these defaults are recent experiences. The advocate of South American credit holds up to view the honor with which these defaulted obligations have been met. All credit where it is due. Never-the-less we would be worse than careless were we to fail to note that invariably this payment of debts past due has not been the result of a pricking South American conscience but rather the realization on the part of the creditor that it was good policy to protect the original commitment through a further, tho lesser, extension of credit in an endeavor to escape a total loss. To put it otherwise, we have noted that where these payments have been made, they were not effected thru economy and sacrafice, not thru the shouldering of a burden manfully, but rather thru the temporary and obvious expedient of further borrowings. The evil day was admitted in exchange for an extension of time.

There is no more spectacular element of weakness on the part of these states of the southern hemisphere than their vacillating currencies and questionable banking systems and facilities. In the banking field over-expansion has been the rule. The universal salvation of the banks has been the considerable foreign element among them. The condition of the currencies with their daily fluctuations tracable to an inadequate gold support is one of the greatest problems yet to be solved. The solution seems as far off as the millennium.

The countries' resources lend themselves well to an extensive foreign trade. The situation is somewhat analogous to the relationship which existed between Great Britain and the United States an hundred years ago. South America has raw materials in excess of her own needs. In exchange for them she receives the manufactured articles that she can not herself produce. Unlike the above-mentioned parallel South America has neither a people nor a background that will make for a development similar to that this country experienced as a result of such interchange.

This, then, is in detail the situation we have already styled as unsatisfactory from the investment standpoint. There is one more element to be added to it. We have already considered the attitude of our country toward foreign capital commitment entanglements and the effect which this attitude must of necessity have upon the question of the advisability of making these commitments. Certainly there is but one conclusion to draw from the foregoing summary, and surely that conclusion is not favorable to South American capital commitment on the part of the average investor.

General Conclusions - The Solution of our Problem

We have defined the "average" American investor. We have analyzed his investment needs. We have constructed for him an investment plan. The investment needs of our average investor make essential not only an ultra-conservative investment foundation, but also conservative care in the expansion of this stable foundation. Our average investor lacks in ability to analyze the commitment. The foreign commitment we find more difficult of analysis than the domestic investment of comparable security and equal yield. Further, as a class South American securities are pesessed of greater elements of risk than our investor can afford to accept. And, finally, the attitude of our home government is such as to make questionable the desirability of this type of commitment even tho it were otherwise satisfactory.

As a result of the foregoing considerations it is the conclusion of the writer that the average American investor is not justified in investing in the South American securities that are so frequently being offered him in the markets of the United States.

And this is our conclusion. We found that the problem of investing may readily be divided into three parts: one, the analysis of investment securities; two, the analysis of the investment needs of the individual; and three, the bringing together of the proper investor and a suitable investment. Analysis showed the type of commitment under consideration to be almost on that indefinable, broad borderline between investment and speculation. Analysis determined our investor to be an individual of small means, little investing ability, whose first need is safety, and yet whose natural make up required the stimulus that results from liberal yield. This surely is not a suitable commitment for this type of individual. The solution of the third part of the investment problem is confined to fields with which this paper cannot concern itself.

And In Addition ---

This paper is finished, our purpose is accomplished, our thesis is complete. And yet, the writer feels called upon to add another paragraph, to provide an anti-climax.

In so far as investing in South America is concerned I believe that the day will come when we Americans, as we style ourselves, shall become extensive investors in our sister continent to the south. I believe that much of the future success and prosperity of this great nation involves the development of markets across the equator. I believe that this is possible and that the end will justify the effort. How is this to be brought about? The solution lies in the foreign investment trust. Someday that type of organization will offer to the American investor - yes, the average investor, any investor - a type of monetary commitment that will be better suited to his needs than any he now can find. It will be secure, most satisfactorily so. It will contain that element of romance which the American business man so dearly likes. And, lastly, it will spell the eternal prosperity of this nation and of the Latin American states. I would like very much to discuss this question, like to tell you what I believe to be the reason the Edge Act Banks have failed in this respect. But that is another story, it is not a part of this. And yet, just as a thousand and one other things we cannot treat of here are a part of this great problem of American investment, so is this. I could do no less than mention it as a possible solution.

The End.

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