Founded 1892

Wm. P. Harper & Son

Municipal, Corporation, Mortgage

Bonds

Hoge Bldg., Seattle, Wash.

INVESTMENT BULLETIN FEBRUARY, 1926

Wealth Increased by Waste Elimination

Elimination of waste in industry has been one of the principal causes of increasing prosperity in the United States in the past four to five years. Credit for it belongs largely to the Department of Commerce, Washington, D. C., which, under the vigorous leadership of Herbert Hoover, has been active in promoting standardization of products, improved methods and processes leading to lower unit costs and more scientific and economical use of raw materials.

In 1920 the wage rate and wholesale prices in the United States were, respectively, 99% and 126% above pre-war. But in 1924 the wage rate had risen to 128% above pre-war, while wholesale prices had dropped to 50% above pre-war. The improvement in "real wages"—purchasing power—is so obvious as to need no comment here. And the improvement continued throughout 1925 and is still continuing.

Mr. Hoover said:

> "What the country as a whole has accomplished during the past five years in increased national efficiency is impossible of measurement. The movement is the result of a realization by every group—business men, industrial leaders, engineers and workers—of the fundamental importance of waste elimination."

Since 1921 over 900 group conferences have been held under the auspices of the Department of Commerce and upwards of 200 committees are now at work in cooperation with the Department on various phases of the program.

A few things which have been accomplished are: 60% increase in electric generating capacity; disappearance of periodic car shortages—although tonnage loaded has increased more than 25% since 1921—through increased efficiency in the use of equipment; wider use of business statistics, reducing speculation in commodities; extension of the building season in the construction industries; expansion of industrial research, and wide use of "simplified practice."

Cost of power has been maintained at pre-war levels, large economies in production and distribution offsetting higher costs of labor and materials. Extension of the building season throughout the twelve months led to better distribution of labor and less seasonal pressure on building material, manufacturing and transportation industries with the result that costs were not increased. In fact, prices of building materials decreased. The report on "simplified practice" shows that it has resulted in an average reduction in varieties of 73%. The annual value of manufactured goods affected by these simplifications is over two billion of dollars and the savings through standardization of products are enormous.

Projects under consideration include greater use of waterways because of the lower cost of water-borne commerce and are concerned particularly with the Great Lakes-St. Lawrence River and Mississippi River routes.

"We must vigorously sustain this campaign of better nation-wide utilization of our industrial resources and effort," said Mr. Hoover. "More especially is this the case in view of the many complex forces which have arisen from the war and particularly the difficulty of maintaining our situation as against the competition of a world of lower standards overseas."

Many Small Buyers "Canny"

Because of the human tendency to buy on a rising market and sell on a declining market, in other words, to be carried away by enthusiasm at one time and by pessimism at another, the belief persists that the general public is made up of a bunch of sheep which submit to periodical shearing in the stock market. To a great extent this is true of margin traders but the stock transfer books of large corporations tell a different story about the "little fellow" who buys outright and has the stock transferred to himself. These books show that during great "bull" markets in stocks, such as we recently have experienced and which may not yet be ended, the number of individual holders of stock drops considerably. On the other hand, when prices are low the number of stockholders shows a big increase. In other words, the "little fellow" who buys outright is "canny." He lets the "boys" in Wall Street have his stock when they shove prices away up and he buys it back when prices slide down again. He is a bargain hunter who knows enough to take a good profit and patiently await the next bargain day.

HARPER & SON · FOUNDED 1892 · BONDS · SEATTLE

Terminal Bonds Attractive

Bonds of terminal companies serving railway and other transportation systems occupy usually a position as to safety which perhaps is not generally understood by many investors.

Take for instance the Chicago Union Station Company. This company is jointly owned by four of the largest railroad systems serving Chicago, each having a fourth interest. The company's property consists of the huge Chicago Union Station, which is used jointly by the four roads. This union station improvement was financed largely by the sale of bonds. These bonds are guaranteed jointly and severally by each of the four railway companies. The strength of this guarantee lies in the following: (1) The amount which each company must pay toward meeting the service of the Union Station bonds is an operating expense and, as such, comes ahead of interest and principal of the company's own bonds, dividends on its preferred and common stocks, etc.; (2) the guarantee is joint and several, which means that each company is responsible for not merely a fourth of the Union Station Company's bonds, but, should necessity arise, for all of them.

The safety of the station bonds is thus bounded only by the ability of the railroad companies concerned to earn simple operating expenses with no return on their investments. The rates which they are allowed by the Interstate Commerce Commission and other rate-fixing bodies contemplate such net profits as will give them a fair return on their investment. It would seem, therefore, that the Union Station bonds are endowed with a high degree of safety.

Similar arrangements as to terminals are in force in Kansas City, Mo., Portland, Ore., and numerous other cities throughout the country.

In Seattle the Pacific Steamship Terminal Company is an example of such a company. This improvement, located on nearly 20 acres of valuable Seattle waterfront property, was made to meet the need of the Pacific Steamship Company for terminal facilities in this city which would enable substantial savings in operating expenses to be effected by concentrating its business at one adequate property instead of at four scattered piers as formerly.

Bonds were issued to the amount of $1,500,000 against cost of site plus cost of improvement, which together amounted to more than $2,100,000. The Pacific Steamship Terminal Company, which was organized to buy the site and construct the terminal, leases the property to the Pacific Steamship Company at a rental not less than sufficient to pay taxes, insurance, maintenance, bond interest and principal of bonds as same become due. Service of these bonds is, therefore, an operating expense of the Pacific Steamship Company and earnings of that company must drop below mere operating outgo, with nothing left to apply on its own bonds, for depreciation or for earnings on its preferred and common stocks, before these bonds can be endangered. This is a very remote contingency in view of the company's earnings record.

But, even should this happen, the bonds are a first mortgage on the entire terminal property, which cost in excess of $600,000 more than the bond issue, a margin of safety of better than 30%.

Bonds of the Chicago Union Station Company and other terminal companies referred to are similarly first mortgages on the properties of these companies.

Another somewhat similar type of bond is the railway equipment trust certificate. Title to equipment being purchased by a railroad company is taken in the name of a trust company. The equipment, which is financed by means of these certificates plus cash payment, usually 25%, by the railroad company, is then leased to the railroad company. The rental is such amounts as will meet the principal of the certificates as they mature serially and the interest, or more correctly dividends, on the same. When all the certificates have been retired the trust company, for a nominal consideration, transfers title to the equipment to the railroad company.

The object of this arrangement is to prevent the equipment, while money is still owing on it, from coming under the railroad mortgages. These mortgages contain "hereafter acquired" clauses, meaning that property acquired subsequent to the mortgages comes under them.

When railroads go into receivership, as they sometimes do, the courts invariably order the receivers to continue meeting dividends and principal of the equipment certificates. If this were not done, the equipment on which money was still owing would be taken away and the earning capacity of the roads injured as they would then have to rely upon equipment which had been fully paid for.

The Chicago, Milwaukee & St. Paul and the Chicago & Alton railroads are now in receivership. Yet their equipment trust certificates sell readily to net the investor 5% to 5¼%.

Wm. P. Harper & Son
Founded 1892
Bonds
Seattle

Outlook for Building Industry

The tremendous volume of building construction which has obtained in the United States during recent years, and which amounted to $6,500,000,000 in 1925 and an average for the seven years (1919-1925, inclusive) of $4,341,000,000, has been such a large factor in the prosperity of the country that serious study is being given to the question: Will it continue or will there be a serious slump?

Most authorities are of the opinion that the building shortage has now been made up and state that overbuilding has been reported from many localities with the trend of rents downward. Cheap money played a large part in the huge volume attained in 1925 as it encouraged speculation in building similarly as it stimulated speculation on the stock exchanges. Thomas S. Holden, statistician for the F. W. Dodge Corporation, summaries a prevailing view of the situation as follows:

> "The industry is now organized for $6,500,000,000 (last year's total volume) worth of work a year, and a big source of demand for its product has been eliminated. The industry is in the position of a manufacturer who has enlarged his plant in response to continuous pressure of unfilled orders, and finds that he has caught up on the orders. He sees at the moment a greater demand than ever before, but he knows that just now it is much more a speculators' demand than a consumers' demand. The product is wanted, not for consumers' immediate requirements, but by speculators who hope to resell at a profit. He knows that the speculative demand may possibly be cut off sharply by restriction of credit."

Mr. Holden believes that a reduction of building volume from the level of 1925 to the average of the past seven years would be little short of economic disaster to the country. Such a drastic recession, in view of the widespread prosperity of today, based on sound economic conditions, would, he believes, be unthinkable. With the average American of today enjoying the largest purchasing power in history the growth requirements of the country, he concludes, will probably result in a much larger building volume in the future than the average volume of the past seven years.

It is generally agreed that the outlook is for continuance of easy money conditions so that general credit restriction is not likely to enter into the situation. However, in view of the general belief that acute shortage is a thing of the past, interests which finance construction are adopting a more and more wary attitude toward new projects.

Diminution of building volume—and that there will be such diminution seems settled, the extent of it being the only question at issue—will, of course, release funds for other purposes. Decreased demand for the products of industry will mean keener competition and declining prices, as industries keyed up to high capacity endeavor to keep as much of that capacity as possible at work. This will mean lower profits and hence lower prices for common stocks. Bonds, therefore, are expected to attract most of the released money as they are further removed from the hazards of industry and, through operation of the law of supply and demand, they are likely to advance decidedly in price.

A Record of National Progress

Figures on total national and per capita wealth of the United States recently given out by the Census Bureau at Washington, D. C., tell a story of achievement which explains the oft-quoted statement that "No one can afford to be a 'bear' on the United States." The figures are as follows:

	Total Wealth	*Per Capita Wealth*
1850	$ 7,135,780,000	$ 307.69
1860	16,159,616,000	513.03
1870	30,068,518,000	779.83
1880	43,642,000,000	870.20
1890	65,037,091,000	1,035.57
1895	77,000,000,000	1,117.01
1900	88,517,307,000	1,164.79
1904	107,104,212,000	1,318.11
1912	187,739,071,090	1,965.00
1924	320,000,000,000	2,839.75

Measured by the yard stick of purchasing power of the dollar at the various times shown the increase, of course, would not be so great. On the basis of wholesale prices the dollar, figured as worth 100 cents in 1860, was worth, roughly, at the various other periods: 1870, 69 cents; 1880, 90 cents; 1890, 110 cents; 1895, 135 cents; 1900, 115 cents; 1904, 107 cents; 1912, 100 cents; 1924, 65 cents. Taking these actual values into consideration the national wealth was in 1924 just about 13 times what it was in 1860, while, on the same basis, per capita wealth in 1924 was about 3.6 times what it was in 1860.

OVER ONE-THIRD OF A CENTURY OF RELIABLE INVESTMENT SERVICE

WM. P. HARPER & SON
FOUNDED 1892
BONDS
SEATTLE

Current Offerings

	RATE	DUE	YIELD	DENOM.
Multnomah County, Ore., School Dist. No. 1	4½%	1928-34	4.20-30%	M
Portland, Ore.	4%	1936	4.30%	M
Port of Seattle	5%	Various	4.50-60%	M
Yakima Co., Wash., School District No. 112	5%	1948-51	4.50%	D
Western United Gas & Electric Corp. (1st Mtg.)	5½%	1955	5.50%	M-D
Mabton, Wash., General Obligation	5¾%	1942	5.50%	M
Humphrey Apartments, Seattle (1st Mtg.)	7%	1926	5.50%	D
Lancaster Apartments, Seattle (1st Mtg.)	7%	1926	5.50%	D
Philip Miller Co. (1st Mtg.)	7%	1926	5.50%	D
Puget Sound Power & Light Notes	6%	1930	5.75%	M-D-C
Fisk Rubber Co., Notes	5½%	1931	5.90%	M-D
Yakima & Benton Co. D. D. No. 1	6%	1926-37	6%	M
Sutherland Hotel Co., Seattle (1st Mtg.)	6%	1930-34	6%	M-D
Coulee City, Wash., Water Revenue	6%	1938-39	6%	M
Willamette Iron & Steel Works (Portland) Notes	6½%	1926	6%	M
Quinault Apartments, Seattle (1st Mtg.)	7%	1928	6%	D
Crown Willamette Paper Co. (1st Mtg.)	6%	1951	6.10%	M-D
North American Edison Co. Pfd. Stock	6%	Market	6.25%	
Seaboard Land Co. (1st Mtg.)	6¼%	1926	6.25%	M
Pike Place Public Markets, Inc.	7%	1927-38	6.25-7%	M-D
Chicago, Aurora & Elgin R. R. Co.	6%	1951	6.30%	M-D
Electric Investors, Inc., Pfd. Stock	6%		6.30%	
Cities Service Co. Debenture	6%	1966	6.45%	M-D
Portland Woolen Mills (Portland) 1st Mtg.	6½%	1935-37	6.50%	M
719 Second Ave. Bldg., Seattle (1st Mtg. leasehold)	6½%	1934-35	6.50%	D
C. W. Wilmeroth Co., Wenatchee (1st Mtg.)	6½%	1931	6.50%	D-C
Pacific Steamship Co. (Equipment)	6½%	1930	6.50%	M
A. V. Love Dry Gds. Co., Seattle (1st Mtg. leasehold)	6½%	1935	6.50%	D
Paulson Bldg., Tacoma (Leasehold)	7%	1928	6.60%	D
National Distillers Products Corp.	6½%	1935	6.65%	M
Pacific Steamship Terminal Co. (1st Mtg.)	7%	1931-39	6¾-⅞%	M-D-C
Bryant Lumber Co. (1st Mtg.)	7%	1932-34	6.80%	M-D-C
Standard Building Co., Aberdeen (1st Mtg.)	7%	1935	7%	D-C
Piggly Wiggly West. States Co. (Com., no Par Value)	$21.50 share		7%	
State of Wurttemberg (Germany)	7%	1930	7.50%	M-D
Kingdom of Italy	7%	1951	7.56%	M
State of Wurttemberg (Germany)	7%	1931	7.63%	M-D
Republic of Peru	7½%	1940	Mkt. 7.70%	M
Tyrol Hydro-Electric Power Co. (Austria)	7½%	1955	7.70%	M-D
Brunner Turbine & Equipment Co.	7½%	1955	7.90%	M
Republic of Costa Rica (Customs Lien)	5%	1958	8%	£20-100

INDEX

M denotes $1,000 denominations. D denotes $500 denominations. C denotes $100 denominations.

Periodical analysis of your investments is a safeguard. We maintain a department for such purpose and invite you to use its services.

Detailed descriptive circulars concerning any of the above securities will be sent upon request. Just check the issues which interest you. Orders may be telephoned or telegraphed at our expense.

OVER ONE-THIRD OF A CENTURY OF RELIABLE INVESTMENT SERVICE