Circular No. 652

Founded 1892

Wm. P. Harper & Son

Municipal, Corporation, Mortgage

Bonds

721 Second Ave., Seattle, Wash.

INVESTMENT BULLETIN FEBRUARY, 1927

Re: Public Market Financing

The market place is as old as history but in ancient days merchandise of almost every type and description was displayed and sold there. The public market, as constituted in the modern American city, however, confines itself pretty much to foodstuffs and is designed to establish contact between the actual producer and the actual consumer. In the main it serves this purpose, although not every lessee of a stall is the actual producer of what he offers for sale. But, in any event, a wide selection is afforded and the housewife saves at least the money to which "cash and carry" entitle her and, generally speaking, if she is discerning, obtains foodstuffs more edible because of greater freshness.

In Seattle there has been built up a market, the Pike Place, which is not only nationally but internationally famous. About a year ago this property was acquired by Arthur E. Goodwin, for years its active manager and a nationally recognized public market expert whose advice and suggestions frequently have been sought by those wishing to develop similar markets in other cities. Wm. P. Harper & Son were identified in a major way with the underwriting and distribution of a first mortgage bond issue of $375,000, the proceeds of which furnished part of the purchase price paid by Mr. Goodwin and his associates.

Mr. Goodwin's estimate of profit for 1926 made at the beginning of that year was $81,450.96. Statement compiled at the end of the year showed profit of $86,403.69, approximately $5,000 above the estimate. This was about 3.3 times interest requirements of the bonds. The bond issue now has been reduced to $354,000, $16,000 having matured in accordance with a pre-arranged schedule and $5,000 additional having been redeemed by purchase and cancelled.

Under the name of Crystal Palace Public Market, Inc., Mr. Goodwin and associates have embarked on a similar project in Tacoma. They have under construction in what is a strategic location for the purpose in the downtown district a market building which will embrace the most modern features of construction and utility. The cost will be $220,000.

A 7% bond issue of $120,000 secured by first (closed) mortgage on the building and leasehold of ground has been underwritten by Wm. P. Harper & Son and the proceeds will finance part of such cost. The bonds mature serially from December 15, 1928, to December 15, 1937, inclusive. The major portion of the issue has already been taken by our clients, but bonds are still available in maturities 1933 to 1937.

All the bonds are equally secured irrespective of maturity and, the mortgage being closed, security for bonds of the later maturities increases as those due in earlier years are paid off. All are priced at par to yield 7%.

Mr. Goodwin estimates net earnings of the Tacoma property at $51,863 a year after allowance of 25% for vacancies, a very liberal allowance in view of the fact that vacancies in Pike Place Market, Seattle, over a period of years have averaged less than 1%. Desiring to be still more conservative we, in our circular descriptive of the bond issue, estimated earnings at $35,000 a year, in itself over four times maximum interest requirements of the bonds.

With the building just well under way and not expected to be ready for occupancy for at least three months, leases aggregating over $40,000 a year already have been signed up and reservations of space, on which actual leases are expected to be signed shortly, aggregate between $8,000 and $10,000 additional. Preliminary negotiations covering considerable space in addition to the above are also under way. We cite these figures to indicate the demand for a public market in Tacoma and its prospects for success.

An Attractive 7% Bond Issue

Low production cost on a quantity basis, cheap distribution, competent management and a quality product are the principal factors which make for industrial success under present day conditions. When all four are in combination profitable operation is virtually assured. Business comes to those who can "deliver the goods," who actively go after it and who make good by performance.

All these factors are present in the situation as it applies to the Ross Island Sand & Gravel Company, a first (closed) mortgage bond issue of $550,000 of which is being offered by Wm. P. Harper & Son and associates at par to yield 7%. Considered under the four heads here are the facts as we believe them to be:

Production Cost—Less than 40% that of competitors as result of ownership of own deposits, and thus no royalty to pay, and most modern equipment.

Cheap Distribution — Strategically located bunkers along the Willamette River in Portland, from each of which some portion of the city can be served most economically. Two are on trackage and three on docks. Thoroughly modern distributing equipment.

Competent Management—President and active manager of the company has long record of outstanding success in the same line of business.

Quality Product—Letter from J. W. Hoover, State Highway Engineer of Washington, states that test of sample of sand showed that the "seven-day strength averages 138% standard Ottawa, which is well above our specifications of 100%. We will forward the complete test to you when the 28-day test is completed," also: "This is the first well organized effort, so far as we know, to produce continuously the kind of sand and gravel that we desire for our state highway construction. . . . . . We believe that our contractors in the future will be given first class service and that we will secure for our highway construction better material than in the past."

Security for the bonds we believe to be ample, consisting as it does principally of a first (closed) mortgage on Ross Island and adjacent smaller islands comprising about 400 acres in the Willamette River close to the center of Portland, all plant and equipment of the sand and gravel operation and assignment of stock constituting control of the Beaver Portland Cement Company, the largest cement plant in the State of Oregon. Total book value of the security is $2,806,854.46 or over $5,000 for each $1,000 of the first mortgage bonds.

Another factor to be kept in mind is that here we have a large sand and gravel company and a big cement plant being operated under the same ownership and their products being merchandised together.

Earnings—The sand and gravel operation is just getting nicely under way but already 60% of its estimated output for 1927 has been contracted for ahead at profitable prices. Net earnings for the year are estimated at $129,000 against interest requirement of the bonds of $38,500. In addition, based on previous years' experience, earnings applicable to the company's holdings in Beaver Portland Cement Company and Oregon Gravel Company of Salem and revenue from booming rights along company's properties in the Willamette River will aggregate $79,000, making a total of $208,000 available for interest charges of $38,500.

Sinking Fund of five cents per cubic yard of sand or gravel produced is expected to retire a large percentage or all of the bonds before maturity in 1937 by purchase in the open market up to 103 or call by lot at that price.

The function of a bond house is, with due regard to diversification, to secure for its clients the highest return consistent with safety. We feel that the first mortgage 7% bonds of the Ross Island Sand & Gravel Company, at par to net 7%, meet this requirements and we recommend them for investment.

Institutions Largest Security Holders

Exclusive of mortgages, securities owned by banks and insurance companies of the United States now aggregate $20,000,000,000.

In the eight years ended June 30, 1926, investments (as distinguished from commercial loans and discounts) of the banks of the country increased from about $9,750,000,000 to almost $16,000,000,000, according to a recent report by the Comptroller of Currency, Washington, D. C.

In the four years which ended December 30, 1926, reports of 41 insurance companies show them to have increased their security holdings by approximately $900,000,000. According to the Department of Commerce, insurance companies now hold about $4,000,000,000 of investment bonds and stocks.

Combined security holdings of the banks and insurance companies are equal to about 1/16th of the national wealth, which is estimated at $320,000,000,000.

Holdings of the banks and insurance companies include large blocks of the issues of securities which are offered from time to time to private investors by responsible investment houses. The balance of their holdings consists of parts of issues brought out by bond houses at various times in the past. These latter are acquired as they are offered on the exchanges and otherwise but such offerings have not been nearly sufficient to meet the demand, hence the ease with which mritorious new issues are absorbed.

Practically all insurance companies and the larger banks have trained personnel and facilities for investigation supplementary to the facts and figures supplied in the circulars descriptive of offerings. In these respects they have an apparent advantage over the private investor. But a bond house of the right type is vitally interested in the success of its clients' investments because its own success is largely dependent upon their continued patronage and their help in attracting new clients.

Therefore, the problem of the private investor resolves itself into doing business only with houses of standing and reputation. He should remember that his bond house can, and will gladly, give him much information too detailed to appear on the circular, and should keep in mind also diversification, which, if practised, will result in the building up of a well balanced list of holdings. In brief, through the exercise of "horse sense" he can approximate the degree of safety which banks and insurance companies obtain for their investments and average a return about equal to theirs.

Foreign Bonds Still Advancing

In our Investment Bulletin for March, 1926, we made the statement: "We believe that, given time to season, many foreign issues now coming out will repeat the performance of the bonds shown below." We also spoke of foreign bonds, generally, as being on the "bargain counter from 1920 to 1926 plus possible a few years longer" and concluded with the statement that "the day of the high yield foreign bond is already passing."

"The bonds shown below" referred to a list of foreign dollar issues showing date and price of issue and prices at which they were then (March, 1926) selling. Some of them were even then selling at or above their redemption prices but many were not and the prices of some of the latter now and a year ago compare as follows:

Issue	*March, 1926*	*Current Mkt.*
Austrian 7s	101¼	105
Prague 7½s	98¾	106½
City of San Paulo 8s	104¼	108
State of San Paulo 8s	102⅞	106⅜
Czecho-Slovakia 7½s	99	108¼
French 8s	102¾	109⅛
German 7s	102	107⅜
Japanese 6½s	93½	101⅛
Prov. of Cordoba 7s	97¼	99
Peru 8s	103	104⅜
Hungary 7½s	97	103¼
Brazil 8s	103	107
Central Bank for Agriculture, Germany, 7s	96¼	103

Some of the bonds which were coming out about that time (March, 1926) and which have been offered since have acted marketwise as follows:

Issue	*Offering Price*	*Current Mkt.*
Antioquia 7s	90 to 93	96¼
Bavaria 6½s	92¾	99¾
Belgian 7s	94	102⅞
Berlin 6½s	89	99⅞
Brazil 6½s	90 to 90½	92½
Bremen 7s	94¾	104⅝
Dept. Caldas 7½	95½ to 98	98
Cologne 6½s	87½	99⅞
Dresden 7s	94	103⅛
Gt. Cons. El. (Japan) 6½s	86	96
City of Graz 8s	98	102
Hungarian Mun. 7½s	89	100
Heidelberg 7½s	98½	104½
Italy 7s	94½	95¼
Norway 5½s	96½	100⅛
Oslo (Christiana) 5½s	97	99½
Peru 7½s	97¾	101
Poland 8s	95	95
Rhinelbe 7s	94	123½
San Paulo 7s	96½	99¾
Prov. Santa Fe 7s	96	95¾
Yokohama 6s	93	95¼
Siemens & Halske 6½s	99	104¾
United Steel Wks. 6½s	96	106¾

The above list, while it includes some of the bonds which have made the most notable advances, was made up at random and not with the purpose of showing only such.

The great majority of foreign issues placed here in the past year or so have advanced in price. Where they have not they are selling at their approximate issue prices, this being due in most cases to the fact that they have been offered comparatively recently and thorough distribution has not yet been obtained.

We do not wish the above to be construed a blanket endorsement by us of all foreign issues. We make every effort to select those we offer with great care and advise our clients to exercise like caution.

Call Prices Halt Advances

Often an investor notes that bonds of an issue in which he is interested cease going up marketwise when they reach a certain point, while at the same time the market generally is advancing steadily. The most frequent explanation is that his bond has reached a price at which it is subject to redemption. In such cases purchasers hesitate to pay more than the call price.

It sometimes happens, of course, that a bond can not be replaced to advantage when the call price is reached but is satisfactory to continue to hold for the interest return. A holder should at the very least get in touch with his bond house and ascertain which is more to his advantage: to continue to hold or to sell and reinvest.

Current Bond Offerings

FIRST MORTGAGE

	Rate	Due	Yield	Denom.
Ross Island Sand & Gravel Co.	7%	1937	7%	M-D-C
Crystal Palace Public Market, Inc., (Tacoma) Leasehold	7%	1933-37	7%	M-D-C
Pike Place Public Markets, Inc., (Seattle)	7%	1930-31-1938	6½-7%	M-D
Crystal Garage (Seattle)	7%	1935	7%	D
Bryant Lumber Co.	7%	1934	~~7½~~ 6½	M
Oregon-Washington Bridge Co.	7%	1931-34	6½%	D
Pacific Steamship Terminal	7%	1940-42	6.80%	M
Republic Bldg. (Seattle) Leasehold	6½%	1942	6½%	M-D
Twin Falls-Jerome Inter-County Bridge	7%	1936	7%	M-D
Security Bank Bldg. (Olympia)	6½%	1935-36	6½%	M-D-C
Seattle Orpheum Co. (Seattle)	6%	1933-41	6%	M-D
Portland Woolen Mills (Portland)	6½%	1935	6½%	M

CORPORATION AND PUBLIC UTILITY

	Rate	Due	Yield	Denom.
General Motors Acc. Corp.	6%	1937	6%	M
Oregon-Washington Bridge Co.	6½%	1933	7%	M-D-C
International Rys. of Central America	6½%	1947	7¼%	M-D
Indianapolis Pwr. & Lt. 1st Mtge.	5%	1957	5.15%	M-D
Interstate Pwr. Co. 1st Mtge.	5%	1957	5¼%	M-D
Northwestern Pub. Serv. 1st Mtge.	5%	1957	5.10%	M-D
San Joaquin Lt. & Pwr. 1st Mtge.	5%	1956	5¼%	M-D
Interstate Public Service 1st Mtge.	5%	1957	5.13%	M-D

FOREIGN

	Rate	Due	Yield	Denom.
Batavian Petroleum Co.	4½%	1942	4.85%	M
Rep. of Chile	6%	1961	6½%	M-D
Rep. of Bolivia	7%	1958	7.12%	M
Rep. of Peru	7½%	1956	7½%	M

STOCKS

	Price per Share	Dividend Rate	Yield
Pacific Coast Biscuit Co. Participating Convertible Pfd.	$49.00	$3.50	7.14%
*Diversified Trustee Shares "Shares in America"	Mkt. about $18.00		
Associated Gas & Electric Pfd.	$95.50	$6.50	6.80%
Indianapolis Pwr. & Lt. Pfd.	$98.00	$6.50	6.65%

***Yield depends on dividends paid by companies stocks of which are held.**

M—denotes $1000 pieces. D—denotes $500 pieces.
C—denotes $100 pieces.

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. Orders may be telephoned or telegraphed at our expense.

OVER ONE-THIRD OF A CENTURY OF RELIABLE INVESTMENT SERVICE