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## C. INVESTMENT SECURITIES

### I. SECURITIES AND EXCHANGE COMMISSION, RESEARCH DIVISION

#### *Characteristics of various types of investment trusts and companies (Investment Trust Study)*

One phase of the Commission's investment trust study entails analysis of the investment experience records of different types of American investment trust from 1927 through 1935. Investment policies and practices of such organizations, including analysis of their portfolios, and methods of portfolio selection, are being critically examined. In addition, the investigation entails an evaluation of the securities issued by investment companies themselves from the investor's standpoint in the light of their capital structures, character and management, investment policies, investment experience, transactions in own shares, compensation of officers, and relationships with affiliated interests. Besides an examination of the records of investment companies, the analysis takes into account capital losses to investors from the ownership of investment company securities, income received from such ownership as compared with income receivable from alternative investment in long term interest-bearing issues, the market behavior of investment company issues as compared with that of other types of security.

In preparation under the direction of Paul P. Gourrich in accordance with the provisions of the Public Utility Holding Company Act of 1935, authorizing and directing the Securities and Exchange Commission to make a broad investigation of the functions and activities of investment trusts. The reports prepared in connection with the project are expected to be submitted to Congress in the middle of 1937.

For the main description of this project see IC(e) 1

2. U. S. DEPARTMENT OF AGRICULTURE, BUREAU OF AGRICULTURAL ECONOMICS, DIVISION OF AGRICULTURAL FINANCE

*Factors of banking success or failure in Arkansas, Utah and Wisconsin*

One phase of this inquiry is a study of the investment portfolios of closed and surviving banks. The purpose is to determine the experiences of banks with investments of various classes and ratings. Detailed investment lists were obtained from examiners' reports once each year, 1927-35, inclusive, for each bank included in the study.

In preparation under the direction of F. L. Garlock, in cooperation with the respective state agricultural experiment stations and colleges.

For the main description of this project see IE7

3. COLLEGE OF THE CITY OF NEW YORK

*Railroad financial reorganization*

With a view to developing a program of recommendations for reorganizing on a more satisfactory basis the financial structure of railroads, and also recommendations for modifying statutory standards governing the

investment of trust and other funds in railroad securities, this project is examining intensively existing railroad financial practices, the reorganizations during the depression and their effects on the standing of various classes of railroad securities. Important data bearing on the qualitative aspects of railroad securities are being assembled and analyzed in order to contribute a better basis on which to judge railroad investment issues. In addition, policies of such institutions as insurance companies and savings banks are investigated to determine the efficacy of the legal standards of investment to which they must conform.

G. W. Edwards is directing the project, which is financed by WPA funds. Completion is not expected before January 1938.

For a supplementary description of this project, see also IID<sub>3</sub>

#### 4. COLLEGE OF THE CITY OF NEW YORK

##### *The securities of large corporations*

Largely statistical, this project is reanalyzing relevant data available in public documents and publications of financial agencies with the purpose of evaluating the adequacy of information available for judging qualitative elements of investment securities. The broad objective is to organize and systematize investment security information to provide a more effective basis for public policy in regulating security issues and protecting the investor.

In preparation under the direction of George W. Edwards, and financed by WPA funds.

For the main description of this project, see IID<sub>5</sub>

5. UNIVERSITY OF MINNESOTA, SCHOOL OF BUSINESS  
ADMINISTRATION, FINANCIAL AND INVESTMENT REVIEW

*Investment standards and criteria for banks,  
particularly country banks*

With a view to contributing to an improvement of analytical techniques for appraising bank investments, a series of fragmentary studies are being conducted dealing with various types and qualities of bonds. Various tests are examined and criticized with a view to determining generally valid and applicable rules.

In preparation under the direction of Laurence R. Lunden. As completed, the findings of these inquiries will be published in the Institute's *Financial and Investment Review*. Several of the studies have already been published.

See also IE<sub>12</sub>; IVF<sub>2</sub>

6. FITCH INVESTORS SERVICE, STATISTICAL DIVISION

*The behavior of rated bonds, 1932-1937*

This investigation is designed to provide a systematic summary of the market experience of rated bonds of higher grades over the recent period of unusually rapid change in bond market conditions, 1932-37. It is covering some five hundred industrial, public utility and railroad bond issues of investment and semi-speculative quality that are included in the A and B grades, classified by industry, maturity and rating. Weekly fluctuations are charted and compared to find common and distinctive behavior patterns within each group.

In preparation under the direction of John G. Becker

as a firm project, the study will be completed in summer 1937. Definite publication plans have not been made.

7. MOODY'S INVESTORS SERVICE

*The relationship of yield and price changes of  
bonds of different maturities*

In order to attain a more objective and accurate basis for judging the price risk of investments of different maturities, a statistical investigation of price and yield change of all triple A bonds (Moody's ratings) from 1919 to 1936 by maturities is in process. Price and yield indexes for bonds of different maturities are being compiled as an adjunct of the study.

In preparation under the direction of Donald B. Woodward as a firm project. When completed, the results of the study will be made available in the regular publications of Moody's Investors Service.

8. MADDEN, J. T., [NEW YORK UNIVERSITY]  
NADLER, MARCUS, SAUVAIN, H. C.

*America's experience as a creditor nation*

The financial lessons taught by the foreign investment experience of the United States during 1920-35 are the subject of this inquiry. The first part of the study describes the development of the United States as a creditor nation and analyzes the broader economic consequences of lending abroad by Americans. Against the background thus prepared intensive study is made of: (a) the course of defaults in foreign securities after 1929; (b) the amount of defaults in comparison with defaults suffered by American investors in certain groups of domestic securities; (c) the financial results, to Amer-

ican investors as a class, of foreign lending during sixteen years as measured by, first, the average rate of return received, and second, the total return of funds, interest and principal, plus the market value as of the end of 1935, as against total funds invested in foreign securities. This analysis is followed by a brief survey of the contemporary transfer problem and the present status of American foreign investments. A final section of the study deals critically with: (a) underwriting methods and practices of investment bankers; (b) the influence of governmental policy on foreign investment; (c) governmental protection of foreign investment; (d) practices in the readjustment of foreign defaults and the organization of the Foreign Bondholders Protective Council, Inc.

This study has recently been completed and published as a book.<sup>1</sup>

See also IIB(c) 3

<sup>1</sup> Prentice-Hall, New York, 1937.

9. MEAD, E. S.,

[UNIVERSITY OF PENNSYLVANIA]

GRODINSKY, JULIUS

*Trends in profits of leading American corporations,  
by industry groups*

Profit and financial tendencies among leading American corporations are intensively studied by industry groups for the periods of expansion, depression and recovery, 1923-36. The purpose is to relate the tendencies disclosed to major trends in American industrial development and to appraise the investment implications of recent tendencies against this background. The study is based on the published reports of all companies represented in the listings of the New York Stock Exchange.

Publication of the study as a book is scheduled for the fall 1937.

See also IIB(c)7

10. RODKEY, R. G.

[UNIVERSITY OF MICHIGAN]

*Preferred stocks as long term investments*

The problem of this investigation is to determine the effectiveness of preferred stocks in minimizing the time hazard of investment. Elaborating on a previous study published under the same title in 1932 in the Michigan Business Series (Vol. IV, No. 3), further tests are being made of conclusions tentatively reached in the earlier study that preferred stocks which are senior issues have a high degree of investment merit. Whereas former tests covered 1908-32, the present tests are using different starting dates, one in 1925 after stocks generally had had a long advance, and a second in the middle of 1929, near the top of the bull market. Relative market and investment behavior for preferred stocks of a senior status are being traced from these two dates to the end of 1936 in order to ascertain the extent to which such preferred issues may be depended on as sound investment media.

Completion of the study is expected by summer 1937.

11. YOUNG, W. N.

[CITY BANK FARMERS TRUST  
COMPANY, NEW YORK, N. Y.]

*A management policy for equities in an  
investment fund*<sup>1</sup>

This is a case history of a hypothetical investment fund, established January 1, 1925, that provides for the maintenance of a predetermined ratio of common stocks by: (1) reducing stock holdings as the ratio of stock to total



account value rises, reinvesting the increment in prime bonds; (2) increasing stock holdings when the ratio of stock to total account value is below the predetermined standard and business indexes reflect an upward trend. The purpose is to ascertain how effective an investment policy of this type might prove in preserving the buying power of capital and income.

<sup>1</sup> Thesis, Graduate School of Banking, American Institute of Banking, Section American Bankers Association. .