

# **HOW TO ANALYZE INDUSTRIAL SECURITIES**

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How to Analyze Industrial Securities by Clinton Collver

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**CLINTON COLLVER**

**HOW TO ANALYZE  
INDUSTRIAL  
SECURITIES**



**How to  
Analyze Industrial  
Securities**

# How to Analyze Industrial Securities

By **CLINTON COLLVER, M. C. S.**

Manager Investment Department  
New York Stock Exchange firm,  
Author "Industrial Securities" prepared  
for the Investment Bankers'  
Association of America

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## PREFACE

Since the second edition the industrial boom was displaced by the trying business drouth of 1920. Those corporations which conserved cash will come through. However, some companies which declared earnings out in dividends are in better shape than those which converted cash into idle plant extensions. Such foolish action exchanged the very choicest of assets into virtual liabilities!

Part of our industries had been keyed up to supplying the demands of super-prosperity here, plus unusually large foreign requirements. Yet many industrial managers planned inventories and capacity as though demand would be multiplied indefinitely.

By now, however, calm vision has displaced mirage. "Book value" measurement has been displaced by the yard stick of earnings. The inherent weakness of "net current assets," composed all or mostly of goods, has received practical demonstration. Several warnings given in this and previous editions look mild enough in the light of recent developments.

Yet in spite of troubles contemporary, there is no doubt but that well financed and managed industrials will continue to deserve and receive high investment regard.

This book has been written for those who have taken care of the pennies, but who have found their dollars under constant siege by deceptive "opportunity."

Taking the positive angle, this book is particularly intended to be helpful in pointing the way to profitable investment and speculation. Analysis is profitable because so many will not avail themselves of

it, because so many are willing to labour years in accumulating funds which they take minutes to place. So in times good or bad the markets are full of anomalies, securities which are selling entirely out of line with the general run.

If all investors and speculators based their commitments upon cool analysis, the security markets would be dull localities. However, human nature does not change. In the days of the Mississippi Bubble and today the same tendencies have prevailed. Cupidity still holds sway, but creates opportunities available to those who will determine their purchases and sales upon analysis instead of hopes.

Effort has been made to bring out method of analysis by the use of concrete illustrations taken from well-known corporations, rather than by theoretical dissertation.

I have not attempted to bring all figures in this edition strictly to date. Many figures for 1919 and 1920 seem anything but indicative of the less erratic conditions which most of us now expect.

Acknowledgment is gladly made for help received at New York University, and especially to Dr. A. M. Sakolski, and to Melbourne S. Moyer, C. P. A., sometime lecturers in that institution.

CLINTON COLLVER

34 Pine Street, New York.



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## INTRODUCTION

### I

#### Preliminary Statement

**I**N order to analyze securities of any kind it is essential that complete and frequent reports of earnings and reliable figures as to financial condition be available. Without light we are in the dark and darkness in the financial world is the moral breach of trust of the use of "inside information" possessed by the few—and the hopeless gambling of uninformed outsiders.

It is true that some industrial corporations do not report their earnings or their true financial affairs with the promptness and fidelity to truth which characterizes such companies as the Pennsylvania Railroad. Yet there are railroads whose statements have been found in gross error, and now many Pennsylvanias exist among the industrials.

Investment is the placement of funds for safety of principal and surety of interest return; speculation is defined as the intelligent attempt to discount the future; gambling as the staking of money on blind chance. It is therefore clear that investment and speculation are not possible unless full and frequent reports of earnings and reliable statements of financial condition are given. If certain industrial corporation directors have not yet discovered that the dishonor of breach of trust is outgrown, the public can assist in the awakening and incidentally preserve its hard-earned dollars by directing its attention