LAST WEEK'S STOCK PURCHASES EXPLAINED

Two Causes Supposed to Have Influenced Prices.

FOR COMMUNITY OF INTEREST

Big Financiers Also Said to Have Bought Shares Sold at Higher Level —Control of Some Roads Endangered.

The recent decision against the Northern Securities Company under which it has been made impossible to combine two competing railroads in a holding company was followed last week by some curious developments in the stock market. There was for several days heavy buying of the shares of various Western railroads, including Union Pacific, Atchison, Missouri Pacific, and Chicago, Milwaukee and St. Paul. Various explanations were offered for this sudden revival of stock market activity, and some sanguine persons were led to believe that another big boom was impending. According to other and generally well-informed people at least some of the buying was for the account of the Standard Oil interests, while others insisted that J. P. Morgan and J. J. Hill were accumulating stock in Union Pacific, the property around which the greatest activity seemed to centre. The entire movement was so mysterious that even some of the most prominent bankers in the Street, who generally know what is going on, were deceived and unable to give a detailed explanation or assign a certain cause for this sudden activity. When this buying for unknown sources finally subsided as quickly as it had commenced, the mystery, so far as Wall Street was concerned, was deepened rather than explained, especially when the bank statement yesterday showed an increase of $14,843,400 in loans, which would indicate that some unusual developments had taken place.

Since then experts on financial operations having sifted the possibilities have reached the conclusion that the enormous buying of Western railroad shares was due to either one of two reasons, or, perchance, to both. The first of these is that holding companies for parallel roads having been declared illegal, the controlling interests of large properties decided to revert to the community of interest plan and proceeded to buy into each others' properties with a view of securing representation on the Boards of Directors, thereby insuring harmonious relations, and the other was that, in fear of permanently losing control of properties, a control which during the period of depression they had permitted to remain in the open market, those who directed the fortunes of many of the Western railroads were accumulating enough stock to regain that absolute control and strengthen their position in that way. Either or both of these explanations may have had a part in last week's stock market, and either would necessitate large rearrangements of capital.

The theory that large interests had taken advantage of the falling market of the last year to sell a great deal of their stock, with the idea of buying it back at lower prices, is not an impossible one, as it has been often done before. The interests controlling many of the large properties realized that the decline in prices was unavoidable, and they saw no reason why they should not take their profits on the stocks accumulated at prices even below the present level. They felt sure that with constantly receding quotations no one would be able to wrench control from them, as an operation of such magnitude could not be carried on except on margin by any except a combination of the most powerful interests, as it would require millions of dollars, with the banks by no means inclined to aid in such undertakings by loaning the necessary funds on shares the value of which was constantly declining. So they sold in perfect confidence that they would be able to repurchase at a handsome profit. When the differences over the distribution of the Northern Securities assets developed the danger of not being able to get back what they had sold, these interests found it imperative to jump into the market and buy back security of control. This proceeding would explain the suddenness of the movement as well as its short-livedness.

The other theory is also a plausible one. It is based on the idea that the large interests who control the Western roads cannot afford to permit any wastefulness of resources such as is inevitable in rate wars and other phases of destructive competition. But while the large systems can ill afford to quarrel, the smaller ones are forced to seek alliances in order to prevent their being bottled up. These tendencies have been at work for years, and they have already resulted in practically dividing the Western railroad situation among a few systems, namely, the Harriman lines, the Hill lines, the Gould lines, and the Rock Island lines. The only independent transcontinental system outside of these is the Atchison, Topeka and Santa Fé. These roads are called transcontinental systems because they all have either over their own lines or by a long term trackage arrangement outlets to the Pacific coast. Besides there are some extensive systems operating west of Chicago which, however, do not reach the coast, although they have traffic arrangements with their Western connections. Prominent among these are the St. Paul, the Chicago Northwestern lines, the Chicago and Alton, the Chicago Great Western, the Missouri, Kansas and Texas, and a few minor ones, North and South lines, as for instance Illinois Central, not being here considered.

Some of these lines are already in a close community of ownership, and this is especially true of the Union Pacific, the St. Paul, the Northwestern, the Alton, the Northern Pacific, Burlington, and the Missouri Pacific lines. How closely they are related is perhaps best shown by the following comparison of the most prominent members of the Boards of Directors of the most important systems and their constituent companies:

UNION PACIFIC and contralled lines—E. H. Harriman, O. H. Kahn, J. H. Schiff.
George J. Gould, W. S. Pierce, T. T. Eckert.
H. H. Rogers, James Stillman.
Louis Fitzgerald.
MISSOURI PACIFIC and controlled lines—E. H. Harriman, Mortimer L. Schiff.
George J. Gould, Edwin Gould, Howard Gould, Frank J. Gould.
John D. Rockefeller, Jr.
NORTHERN PACIFIC—E. H. Harriman.
James Stillman.
D. S. Lamont, Samuel Spencer, J. S. Kennedy, E. B. Thomas, W. P. Clough.
BURLINGTON—E. H. Harriman, Mortimer L. Schiff.
James Stillman.
James J. Hill, J. S. Kennedy, W. P. Clough, George W. Perkins.

The railroads which are as yet outside the community of ownership idea are the Atchison, the Rock Island, and the Great Northern, the latter only if the plan for dissolving the Northern Securities Company as proposed by Mr. Hill should not go through.

It appears from this that while the Gould-Harriman and Standard Oil interests are closely intertwined and are also interested in some of the Hill-Morgan properties the latter interests have not so far taken any steps to secure a voice in the administration of the affairs of the Gould-Harriman-Standard Oil interests. Rock Island interests are practically independent, and the Board of Directors of that system shows no alliances with any other system. The same may be said for Atchison, although the Morgan interests have representation on that board. That these defects in the community-of-interest idea will eventually and perhaps in the near future be amended is a conclusion which seems inevitable, and there seems little doubt that before long the close alliance which already exists in the East will be emulated in the West so that finally there will be only three or four systems running from coast to coast, with their branches and connections, the board of each of which will practically consist of the same men representing the same interests.

FRESH CAPITAL DEMAND.

Despite Large Surplus Earnings General Electric Company Is to Issue New Stock.

Last week's announcement that the General Electric Company intended increasing its capital stock and offering the additional stock for subscription by the stockholders was an interesting incident in more ways than one. For a long time it had been reported in Wall Street that the holders of General Electric were about to be given a large extra dividend, which was fully warranted by the enormous profits of the company during the past year. The regular dividend time came and the usual 2 per cent. quarterly was declared, but there was no melon-cutting. Then came the announcement of the proposed increase in stock and the conclusion was reached in some quarters that this was to provide a stock dividend in place of the cash dividend which rumor had it would be paid this Spring. It appears, however, that the Directors of the General Electric Company have no intention of making a stock distribution, and the new stock will, it is said, be sold to the present holders for cash at par.

Apart from the disappointment that may be felt by those most affected by the plan to secure additional capital instead of making an extra distribution of profits, the matter is of great general interest as an example of the fact that the demand for new capital even in enterprises long and soundly established appears to have no end. The profits of the General Electric Company for the year 1902 amounted to nearly 25 per cent. on its capital stock, and it is reported that the statement for the year 1903, which is to be published about the middle of April, will show profits about as large as those of 1902. The dividends amount to 8 per cent. per annum, so that the surplus earnings have been very large. Despite these conditions, which might reasonably be expected to relieve the stockholders of the company from going into their pockets for additional funds, the company, it appears, is about to offer $3,325,000 stock for subscription at par. The question may well be asked if conservative management, such as that much spoken of in the case of the General Electric Company, and the accumulation of profits largely in excess of dividend requirements, are not a guarantee against increases in capital stock in what can such guarantee be found?

In itself the offer about to be made to the General Electric stockholders, if the reported terms be correct, will be attractive enough. The "rights" under the offer will have considerable value, and may in themselves be considered a sort of extra dividend, but this does not satisfy the inquiry why the company does not use its surplus earnings for the purposes for which the proceeds of the new stock issue are to be used, instead of falling back on the stockholders. In 1902, out of the earnings of that year and the accumulated surplus of previous years the company declared a stock distribution of 66 per cent., for the purpose of restoring to the stockholders the stock reduction made in 1898. The distribution amounted to $16,746,133, and the surplus at the end of 1902 was $4,482,701, the amount of cash in the company's treasury at that time being $3,632,556. If the profits of the last year were as large as those of 1902 it would appear that the company could appropriate for special purposes the sum of $3,325,000, the amount of the proposed increase in stock, and still leave a substantial balance to the credit of profit and loss. Why, then, the stock increase?

The answer probably lies in the fact that a stock issue will yield fresh capital to the full amount of the stock increase, whereas the company could not take that much cash out of its surplus without crippling itself. The surplus is there, but probably is not available for the purposes intended to be served by the call upon the stockholders. The new funds, it is said, are to be used, in part at least, for the development of the company's new turbine engines, which the management believes offer a very profitable field, but in addition to this it is probable that the company is meeting with more or less delay in securing payment for its output and is thus practically deprived of the use for the time being of a considerable part of its profits. In fact, it is unofficially admitted that the company has been obliged to be more than usually lenient with a number of its customers, which is another way of saying that profits to some extent, at least, are still in the category of "estimated" rather than "realized." In the present day, at least so far as corporations in which the public have any large share are concerned, the custom of building enterprises up out of earnings rather than by calling for fresh capital subscriptions seems to be more honored in the breach than in the observance