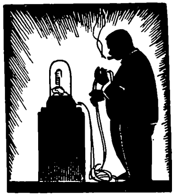
The Stock Market

(May 14th to June 4th 1938)

Those raise-the-price-of-gold rumors again. Latest rise looks more healthy than other fitful spurts, as buyers left highly speculative and non-dividend-paying stocks severely alone this time. Hongkong still doing most of the trading here.



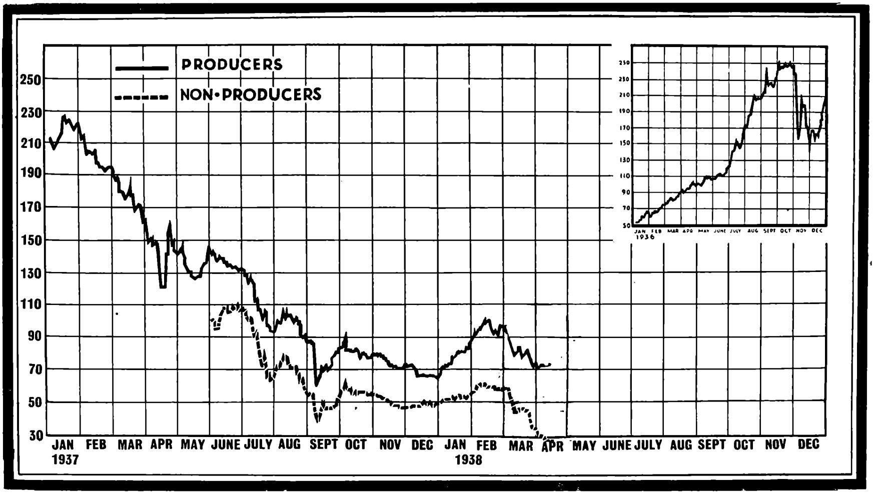
The market moved steadily lower in diminishing volume during the first three weeks of the period under review. A moderate selling wave was touched off during the first week with the removal of pegged prices by the Manila Stock Exchange. Reaction to the lifting of the pegs was calm, although Consolidated Mines, which had been selling for less than half as much on the International as it was pegged at on the Manila Exchange, naturally hit the toboggan on the Manila. The spread which had existed between prices of other stocks on the Manila and on the International likewise narrowed, as was to be expected.

Investment buying was in evidence throughout the period, however. Benguet Consolidated rose gradually from ₱9.20 to ₱10.00, as investors were reluctantly forced upward. Announcement of planned increases in daily tonnage of both Balatoc and Benguet of course helped a lot. Some of the buying appeared to be by insiders, in anticipation of dividend declarations. This theory is borne out by the fact that dividend announcements in late May and the first days of June were immediately preceded and followed by fairly important selling, in certain stocks.

Brokers have been advising clients that there is little possibility that the new measure increasing the tax on mine production would go through. Highly favorable production figures released by several producers assisted to put the public in an optimistic frame of mind. These things did not, however, entirely account for the upward spurt which set in during the second week in June. This rise was stimulated by an announcement which came over the Manila Stock Exchange ticker one morning that rumors were rife in London that the New Deal would again resort to increasing the gold price, in a desperate

(Please turn to page 27)

Market Graph for 1936, 1937, 1938, prepared exclusively for the Journal by Clifford A. Greenman, Securities Service Corp.



The Stock . . .

(*Continued from page 19*)

effort to alleviate the "recession". All news services deny sponsorship of the story, which seems to have come from a private London source, and was slapped onto the ticker for what it was worth.

Economists write that there is some possibility that the Roosevelt administration will again resort to this shot in the arm, should the present trend toward a panic depression in the United States continue. The possibility, however, is said to be exceedingly remote at the present time, Washington being amply supplied with other means of stimulating business artificially. Devaluation of European currencies is considered a more likely possibility, and is said to be indicated by the current strong demand for gold in Europe at advancing prices, either to finance war purchases, or for hoarding.

Exchange gamblers are said to have made a killing out of the recent devaluation of the French franc, and we read that they are poised to cash in on further devaluation steps which they believe imminent. Should devaluation occur, the effect should be favorable to gold, we are told.

In any event, Manila buyers are making commitments on a straight value-received basis. Gold rumors did not affect this trend in the least. Dividend-payers with good production reports are being purchased, almost to the total exclusion of other issues on the board. Benguet, Balatoc, Big Wedge, Atok, Baguio Gold, Demonstration, I. X. L. are accounting for most of recent rises, with other Marsman and Soriano stocks participating to a smaller extent.

Trading volume (an extremely important factor) increased tremendously during the last week under review, running to over 6 million shares, valued at ₱1,254,884.00 at the Manila, and 3,014,140 shares worth ₱185,818.00 at the International. Just two weeks before, both Exchanges were reporting lowest volume since January 11th.

Brokers are greatly concerned over proposed amendments to the Philippine Income Tax law, which would 1. increase the basic rate on non-resident aliens' income from sources within the Philippines from 3% to 10%, this 10% to be applied to non-resident aliens' speculative profits, (capital gains), and, 2. Limit deductible losses in any one year to ₱2,000.

A communication from a member of the board of directors of the Manila Stock Exchange to the board re these amendments points out that at the present time Hongkong and South China are the largest traders in Philippine securities. The relationship between Hongkong and Manila is stated to be very similar to the relationship between London and New York.

The letter points out that, after the U. S. securities Act was passed, and certain objectionable features of Federal taxation became law, volume of trading in London on U. S. securities increased tremendously, until now there is actually a larger volume of trading in U. S. securities in the London market than in New York. The reason for this is said to be the fact that there is no tax on capital gains in London, as well as lower margin requirements in London.

Now, there is no income tax in Hongkong. Machinery already exists there for trading in Philippine securities, without using the facilities of any local stock exchange or brokerage house. Anticipated result of passage of the 10% capital gains tax on non-resident aliens: loss of Hongkong and South China business by local brokers, and loss of any revenue from speculators in these places by the Philippine government.

The limitation of deductible losses to ₱2,000.00 is also an imitation of a New Deal measure. As applied here, with danger of losses from mining investments extremely high, the provision could in many cases result in a confiscatory tax, the letter points out.