

Reasons Why the Gold-Share Market Collapsed

• *Revival Turns Upon Wide Liquidation*

Reasons for the collapse of the gold-shares market in Manila and the pall that still hangs over it are so many that when President Quezon asked newspaper men about his own part in the situation and an attempt was made to enlighten him, characteristically he interrupted, with the remark, "Oh, now you are going to tell me a story." Advisedly, he had no time during a press interview for even the briefest recital of his own part in putting the market down. Besides, he had not played that part in full. It was evident in his attitude that he still had many lines to speak before yielding the stage to lesser actors in the drama of Philippine gold.

But his part comes first. It may also come first in a gradual restoration of public interest in the market. Supplementary factors, some of them coordinate, in the depressing situation are Nature, Quirico Abadilla over at the Bureau of Mines, Judge Ricardo Nepomuceno as Securities & Exchange Commissioner, Dr. Foster Bain who gave a few months to assisting Abadilla, Dr. Bailey Willis and Filipino assistants whose geological observations tend to define the Islands' gold regions, Manila newspapers that published the Willis preliminary reports, and this magazine, that featured reprints of them and editorially invited attention to their probable infallibility.

On March 18, at Washington, Quezon came out like a thunder stroke from clear sky, for shortening the Commonwealth period down to next year or 1939 at most. This seemed to signify doom for Philippine sugar, and sugar had been providing, directly and indirectly, the capital for mining speculations. Up to this moment, all had not been clear sailing but all was going quite well; there were darkening horizons, there were quarreling winds and choppy seas, but practically no canvas had been reefed; it was coming to be realized that the voyage from raw prospect to ingot and dividend would perhaps be longer and more adventurous than had been anticipated at setting out, but courage was high and speed was swift.

What matter occasional minor mishaps? The Golden Pleece should be the ultimate reward of stubborn persistence. As for wreckage and repairs, sugar, that had backed the venture in the first place, would surely come to the rescue again.

After March 18 this was no longer true. The little barkentines of hope were caught in vortices of death and crushed together and shattered to pieces. Sugar deserted ship, swam for shore, and in mere shreds of its former finery on the Rialto, began begging for its life. Mining could go hang, sugar would not throw good money after bad, but, very wisely, would tighten its purse strings and save its personal fortune if it could.

That was the initial part in the gold-shares collapse played by President Quezon. He is not, be it said, in the least repentant. He will strike again, anon.

Now let us take up Nature.

Two booms have engulfed the imagination of the Philippines since Roosevelt took office at the White House in 1933 and within a few months set the price of gold at \$35 an ounce. These booms have naturally resulted in wildcat staking and claiming. (The government was caught unprepared, of course, and cloudy titles and overlapping claims are common

results of this inability to meet demands upon the mining laws). But it appeared some time ago, and had begun appearing quite clearly before Quezon's unpresaged demand on Washington, that Nature had been less profuse in ballasting Philippine mountains with gold than had been anticipated by the hosts of organizers and shareholders and speculators in mining companies. Projects outside the districts afterward delimited by the Willis reports, failed on every hand to pan out.



It is now plain that the lack of fundamental geologic data took the Philippine public at lamentable disadvantage. The truth has come out that Nature has been comparatively niggardly in the Philippines, concerning gold; she has made few deposits, and these not at all consistent. When the booms spread rainbow arcs over all the Philippines, this homely fact was still quite unrealized; if anyone spoke of the possibility of it, he was not believed, but his prudent homilies made him a pariah and he was pelted from the market-place with invective. Experience corroborated him, however, and the market

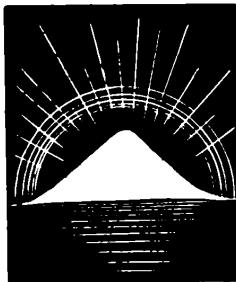
was rife with just misgivings when Quezon loosed the thunderbolt of the foreshortened Commonwealth period. Prior to that fateful day, it was only obvious that values would gradually subside and adjustments to Nature's actualities would be attained slowly. But on that day caution was abandoned and the only anxiety was to sell.

So what has made the market go down?

Answer, everything. Hope deferred maketh the heart sick. At the same time, it is natural for man to indulge in illusions of hope, but, to impoverish expression with still another cliché, the pitcher breaks that is sent too often to the well. People hoped the Baguio field was far more extensive and consistent than it seems to be, and made themselves believe that hope; they have now lost that illusion, and the process of disillusionment depressed the market. People hoped that a Paracale company with a prospect good enough to warrant development could be milling gold in a twelvemonth or less; in the end it was not true, and the disillusionment depressed the market.

In other cases, people hoped that large gross production would issue in a short time in a regular and stabilized dividend rate. This proved not to follow, necessarily, and the disillusionment depressed the market. Gold River at Baguio got a mill, even, then seemed to run out of ore; then it effected an operating contract, an excellent geologist was employed, and hope partially revived at intervals, but now, after so long a period of disappointed hope, the attitude is either to chuck Gold River overboard or stand by grimly—to gain much or lose all. A case-history such as that depressed the market. Ipo out east of town got to paying under Benguet Consolidated management, and Salacot, a speculation just across the river from Ipo, sprang into favor with the public.

Salacot got a mill, too, under a good superintendent, but production never came up to the expectations derived from



Reasons Why . . .

(Continued from page 19)

the prospecting and development work; the public learned once more, as fading hope depressed the market, that even the experts err about gold. In between somewhere, there had been the Bicol bubble and its tragic bursting. In the instance of these companies, scores of men had been convinced, and by the magic of hope had convinced themselves, that here was a district where the main mining tool would be the steam shovel. It all turned out to be error,

credulity and cupidty had burned their avid fingers once again.

Meantime, a sort of minor accompaniment to the booming obligato blared out over the busy Escolta, the tortoise-paced growth of new mines of productive value was regularly reported in the press. This brought realization of the hard task it is to make a mine pay dividends even when all the primary factors have been prudently discounted and have turned out favorable. And it had the effect of depressing the market: mining proved to be an art, though not among the seven, and art is long and time is fleeting.

Also, when so much was disheartening in companies known to be well administrated, courage was lost respecting all the many others obviously in the hands of men lacking experience to weight their judgment. This too depressed the market. As for ourselves, we are almost ready to say that more than half the sets of directors and their engineers would fail with the task of keeping mines well developed ahead of requirements, keeping mills at capacity and dividends regular, even with the ore to begin with well blocked out and the high commercial value ascertained. Something of this the share-buying public has come to believe, and it has depressed the market.

Because it is a sound company well managed, Mineral Resources can illustrate the point respecting time—the lapse of time that acts to depress a stock in the market. This month the company's first mill comes into operation, capacity 150 tons a day, on its Marinduque property, handling an ore yielding lead, zinc, and gold. We have spoken of this before, inviting attention to the fact that this company organized in November 1933; four years have passed, and no untoward circumstances intervened, and only now has production been reached. Such realities have taken the wind out of many a bubble on the Manila board. So much so that it falls out that shares in the most promising new companies in the Surigao district, for example, drag down toward par from quotations five and six times as much only a few months ago—and this at a time the mills are going in.

Bad titles have depressed the market.

Mining claims under patent in the Philippines number some 250 only, but claims registered under the Civil Government Act of 1902 in the rush preceding the advent of the Commonwealth number many thousands; others, perhaps hundreds, were, like the Balator claim now figuring in a test case pending decision in the Commonwealth supreme court, ready for patent but the patents, though applied for, had not been issued prior to the taking effect of the Commonwealth constitution and its nationalization of mineral resources.

The government could not keep abreast of the avalanche of registration applications, repeated in frantic detail after the advent of the Commonwealth in order that priority might not lapse under the stipulations of the constitution. Nor could the mines bureau cope with the countless technical examinations of new properties it should have made. Instead, it was necessary to accept at face value reports of licensed mining engineers in private practice, employed by the companies seeking approval of their properties in order that capital might be raised by sale of shares and that claimholders usually the organizers of the companies, could value in the claims at handsome prices. To this sheer wildcatting, append the fact that it was rampant before the Securities & Exchange Commission was created, and it continued unabated while the commission was squaring away for action.

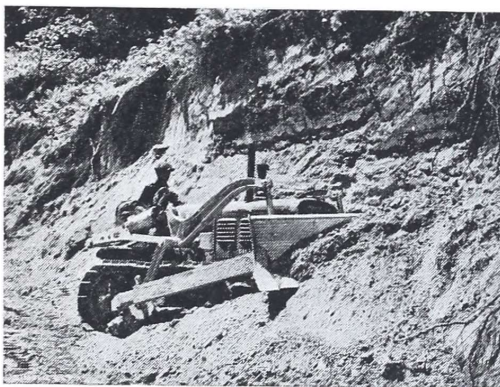
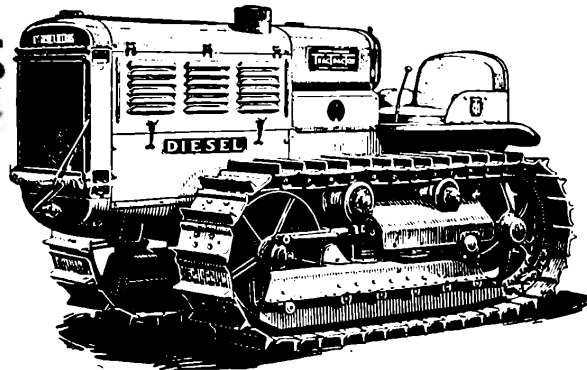
President Quezon himself has summarized the denouement, the only possible one, of these conditions. However, hindsight sees clearly where foresight has been myopic. The people believed that here was a great and precious natural resource, gold, that because they were farmers they had left neglected; and they also believed that they might mine successfully

(Please turn to page 30)

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August 1937 Gold Production

| Name of Mining Companies | August 1937 | | August 1936 | |
|-------------------------------|----------------|--------------|---------------|-------------|
| | Tons Milled | Value | Tons Milled | Value |
| Ambassador Gold..... | 320 | P 1,788.96 | --- | --- |
| Antamok Goldfields..... | 20,270 | 403,816.56 | 21,874 | P533,572.00 |
| Baguio Gold..... | 5,816 | 109,920.80 | 5,465 | 89,095.90 |
| Balatoc..... | 37,997 | 1,165,738.66 | 38,109 | 989,456.18 |
| Benguet Consolidated..... | 25,744 | 791,075.80 | 25,012 | 725,448.76 |
| Benguet Exploration..... | 3,170 | 21,442.82 | 3,072 | 26,567.00 |
| Big Wedge..... | 3,269 | 142,204.28 | 3,195 | 120,727.48 |
| Cal Horr..... | 5,866 | 115,731.38 | 5,853 | 97,833.98 |
| Coco Grove..... | No Production | | --- | 101,562.24 |
| Demonstration Gold..... | 7,445 | 133,667.50 | 6,480 | 103,287.00 |
| East Mindanao..... | 3,324 | 46,118.38 | --- | --- |
| Gold Creek..... | 1,766.28 | 30,890.34 | --- | --- |
| Ipo Gold..... | 5,414 | 53,665.50 | 4,599 | 43,483.99 |
| Itogon..... | 24,810 | 297,639.24 | 15,470 | 207,422.81 |
| I. X. L. | 7,408 | 171,696.07 | 6,306 | 126,505.00 |
| Masbate Consolidated..... | 27,889 | 254,415.04 | 37,709 | 189,821.00 |
| Mindanao Mother Lode..... | --- | --- | --- | --- |
| North Mindanao..... | 124 oz. | 8,680.00 | --- | --- |
| Northern Mining and Dev. | 59 | 924.53 | 503 | 6,378.04 |
| *Royal Paracale..... | 2,800 | 37,835.89 | --- | 20,799.11 |
| Salacot..... | 6,420 | 35,467.00 | 5,057 | 35,423.00 |
| San Mauricio..... | 6,058 | 95,064.40 | 4,801 | 207,246.77 |
| Suyoc Consolidated..... | 6,168 | 128,778.76 | 5,867 | 123,324.58 |
| Tambis..... | 30,556.20 yds. | 7,805.40 | 29,300 yds. | 10,873.10 |
| Twin Rivers..... | 25,482 | 34,155.81 | --- | --- |
| United Paracale..... | 9,423 | 190,929.18 | 8,962 | 116,170.12 |
| Totals..... | P4,279,452.30 | | P3,874,998.06 | |
| July 1937 Production..... | P4,182,996.51 | | --- | |

*IXL Argos before.

will declare any contract prior to Nov. 15, 1935, cancelled.

The momentous decision which the local court must make will clearly establish the national thought of the Filipino toward America. If it decides against Judge Haussermann it will lend its legal approval to the expressed will of the Philippine Constitution which declares that all natural resources shall belong to the States, whether they be privately owned or not.

Cardinal Pillar

If the decision is against the Number One American miner of the Philippines, foreign capital will be extremely wary of investment in the Archipelago. Yet the nationalization of resources is one of the cardinal pillars of Manuel Quezon's program, and the local Supreme Court stands at the cross roads.

If the decision of the court requires that a patent be given to these claims, the Commonwealth Government will have to adopt a new policy toward nationalistic development of its resources of the Islands and toward Americans and foreigners. In the eyes of Americans and foreigners alike, and affirmative decision will be a guarantee to contracts in the Archipelago and will do much to improve American prestige in the Far East.

However, should the decision be adverse, it is a foregone conclusion that the case will be taken directly to the United States Supreme Court which still has jurisdiction over all cases under the American flag.

The effect of an adverse decision and an appeal to the United States Supreme Court upon the attitude of the American people toward Filipino independence is a point not being overlooked by local Manila attorneys. American

sentiment is now favorable toward the Filipino and his nationalistic aspirations. But it could turn overnight. And it probably would if the validity of 37 years of American contracts were destroyed in the Philippines.

This was front-page news in the *Christian Science Monitor*, Boston, Monday, July 26, from its Manila correspondent.

Reasons Why . . .

(Continued from page 26)

because they had farmed successfully, though it did not follow. It further seems to have been a general supposition that places to mine could be selected much as fields for hemp or cane, and like a crop, cultivated into production.

Widespread failure, heaped upon the calamity of dubious titles, depressed the market.

The final situation is such that it is hard to define where honest purpose was abandoned and roguery began. Audacity, in our view, was the most common fault: the audacity of groups of amateur incorporators whose overwrought imaginations beheld pots of gold at the foot of every rainbow in the mountains, who also took it for granted that making a paying mine out of a deposit found to be of commercial value was an easy task, whereas it is one of the most exacting responsibilities in the industrial world—more so in the Philippines than elsewhere.

How claims overlapped was fantastic, and how these conflicting rights were defended became gruesome as war—contending companies hiring gangs of thugs to patrol their lines; and

then it was to turn out, in the end, that what everyone was fighting over was not even a good mess of pottage, but in fact, as ground to mine for gold, nothing at all. This depressed the market, not merely exhausting capital but dissipating illusion and leaving bitterness in its stead. Our personal experience was that a year's vacation, just staying home, the radio and telephone cut off, would have been the most profitable employment we could have sought; we worked right on, as everyone did, pandering to illusions of bonanza gains, and into the maw of these avid musings went our earnings and savings.

While the frenzy continued, and let us say that it was universal to the Islands, the Escolta took the fullest advantage of its every possibility. The optimum was probably reached on the day one house sold frankly for 50 centavos an edition of stock it had taken up at par 10 centavos: subscribers boasted of their luck, or the special pull they had, that had enabled them to buy these shares at 50 centavos.

Meantime the penny-share trick had been popularized, taking in clerks and day laborers who got to preferring mining shares to *jueteng* or the sweepstakes as a device for gambling. When a new company organized, whole schools of these little customers overwhelmed the officers with eagerness to get in on the ground floor. Board averages were rising; no one asked much about what property was to be exploited or about prospectors' assays and reports, or who was behind the project—all that was asked was the chance to subscribe and make a first payment, the receipt for which could be sold the next day at some fantastic premium.

When this played out, as eventually it had to do, sharp depression of the market followed: all the little holders rushed in to sell, and since the real worth of a property had never concerned them, to sell at any price that would salvage some of their gambling money. Nothing associated with the properties involved precipitated this panic, to speak in general terms of accuracy, and nothing, of course, associated with the administration of the mining, the corporation, and the blue-sky laws, because the government had not had time to overtake the situation—and has not had time to do this herculean task yet. Perhaps the start of it was Morgenthau's sterilization of superfluous bullion he was buying from abroad, soon followed by demands from interested sources (the gold-share speculator wouldn't know that) that gold be put back to \$20.67 an ounce. But its real beginning was President Quezon's proposal to cut the Commonwealth period short, since this scared the big fellows who played the board with sugar profits.

This depressed the market. Meantime, some money from China had come into the Philippine market in mining speculations, but had soon grown chary of the situation and had withdrawn again. Talk of how much London was going to interest herself here had also flourished, then subsided; and nothing developed in the situation to get London really started here, or get China to take a new hand in the game. Moreover, nothing will: for whatever mining that may develop here, the Islands have capital enough of their own—the field is not grand enough for European players, and any

China money that comes across the channel will be fright money fleeing the wrath of Japan.

When panic overtook the small fry and they began selling in order to salvage some, if only a part, of their gambling funds, smart operators began cleaning up by selling short. This sinister activity, which nothing can prevent, depressed the market artificially and still continues as a depressing influence on trading. When folk would buy freely, there were sly schemes practiced to make them buy high; as soon as their main wish was to sell, they were whippedawed with other sly schemes to compel them to sell low and provide the smart boys the customary neat profit. The same eloquence that inflated board values was equally effective, when advantage lay that way, in deflating them. Besides, of course, at the necessary moment, even big traders operating on margin had to sacrifice and cover or be sold out.

It was prompt and ruthless liquidation, great pickings for the fellow with nerve enough to sell short.

It added to the depression of the market.

This may be sufficient summarization of reasons why the mining-shares market in Manila is depressed. More pertinent is the question, when will it revive.

The answer is, when it turns more thoroughly respectable; when it gets to be a sort of gentlemen's club with a set of ethics and careful rules governing applicants for membership. That is to say, when new ventures come authentically vouched for by the government; that to the property they would lease there are no adverse claimants, that the ascertained values in this property are so much, certified by the mines bureau, and that upon these data, the Commission has authorized stock to be offered the public. But revive, have we said? No, not revive to boom proportions of any sort, but merely, revive by slow convalescence to the point nonspeculative levels. Thousands and thousands of former sardine-size plungers in the penny stocks will never interest themselves in mining shares again. The animation of their presence in the market will never return, and hence speculation will never soar to the dizzy heights it reached last year; for all of which, thank goodness.

After all, the Philippines are a small country, comparatively. Every Manila activity is eventually whittled down to proportions the country is capable of utilizing. In the early '20s it was coconut-oil manufacturing, ten years later it was sugar-milling, and now it is mining and the vending of mining shares. But just think of a country economically resilient enough to recover from such spells of madness, and in short order at that! However often the Philippines hit the canvas, it is never for the count, and they always spring up smiling. Nevertheless, this time there is call for fair-dealing. Would not prohibition of low par-value stocks be corrective, and would it not make Philippine stocks more attractive abroad? The speculation went entirely too far, and not stopping at the raising of sufficient capital for new ventures, got entirely out of hand because of the low par-value stocks; and besides that, it left the little players in these stocks strapped. Why not P5 as a minimum par value for shares, to get folk to buy them as potential investments and not for avid speculation? Too high, because speculation within bounds is always desirable? Perhaps so; all right then, P1. If for us the boom had one lesson, this is it.

—W. R.

Industrial Metals Prices . . .

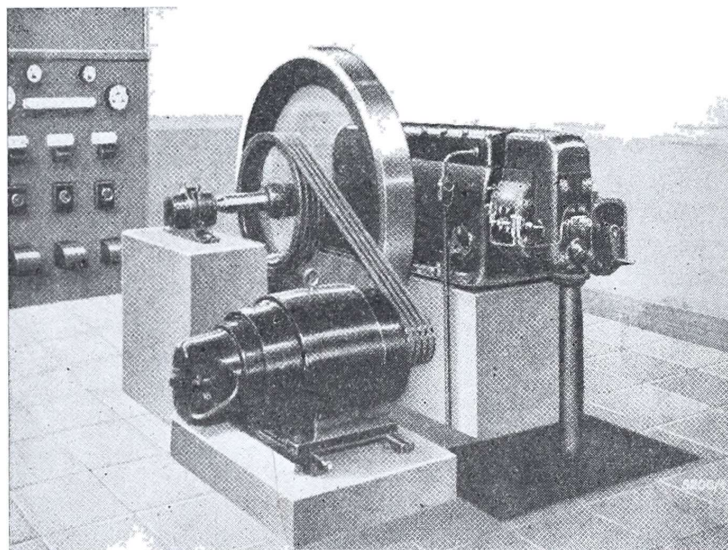
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In supporting his resolution, Bridges said that during the past six months more scrap steel had been sent out of the United States than in any previous full year.

"This is an export of basic material for war" Bridges told the committee, "and over 50 per cent of this export is going to one single foreign country. We hold ourselves up before the world as a peace loving nation, but how on the one hand can we nourish the dove of peace and on the other blindly feed the gods of war?"

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