ELECTRIC LIGHT AND POWER SECURITIES

By HAROLD D. PADGETT

IF the investor is satisfied with the extremely low yield that is now afforded by the highest grade, seasoned, and marketable securities, he needs little advice or assistance in making his investments, for these securities are known to all familiar with investments. However, if the investor desires, as most do, a larger return on his money and also an opportunity for appreciation in the intrinsic value of his investment, it is an altogether different matter; there is then need for advice based on thoughtful study, and guided by experience in the investment business.

As a dealer, or broker, not an investment banker or underwriter, I feel that I can best serve the investor, and thereby myself, by concentrating my attention on the type of securities which, from time to time, offer the best opportunity to secure a high yield combined with safety and a chance of appreciation in market price.

Many general statements are made about "Public Utilities," a classification which includes many different kinds of companies. These general statements, applying often to only a particular kind of public utility, are apt to be misleading. I propose here to discuss one of these, the Electric Light and Power industry. In striking contrast to other public utilities, the Electric Light and Power industry is, it is evident, about to enter a new era of extraordinary development. The telephone, telegraph, gas, and railway industries have become largely settled enterprises, which will develop gradually as the country develops. But it is unlikely that any of them will be required to furnish a radically new kind of service to meet the increasing requirements of our highly organized social life. With the Electric Light and Power industry the situation is different.

Electric light and power securities are now generally regarded favorably by investors, on account of the recent rapid development of the industry, and the marked increases in the earnings. I think, however, that many investors still fail to appreciate sufficiently the unusual opportunity which the industry affords the investor to secure a large return without sacrifice of safety.

I believe that—owing to the tremendous development that is taking place in the industry and the tendency to consolidations through the formation of large holding companies—many bonds, preferred stocks, and even common stocks, which it might ordinarily be considered unwise to consider, will prove to be sound and highly desirable investments. I think it can be shown that the best opportunity today lies in the selection of high yield, so-called second grade bonds, and preferred or common stocks of electric light and power companies.

To the layman, figures in kilowatt-hours or other measures of electricity mean little, but such figures show the growth in the generation of electrical energy during the last forty years to have been tremendous, increasing from 175 million kilowatt-hours in 1887 to over 55 billion kilowatt-hours in 1923. The capital invested in the Electric Light and Power industry in this country has increased from about 55 million dollars in 1885 to over 6 billion dollars now.

Amazing as has been the past progress of the industry, its future growth seems destined to be even more remarkable. During a period of about 40 years, the central power station has become so interwoven into the industrial and private life of America as to be absolutely indispensable. Yet recent surveys show that ⅔ of the power of the country's industries remains to be electrified from central stations; the opinion of the experts who have studied the situation being that practically every mine and manufacturing plant now generating its own power is a potential customer for the central stations. Possibility of enormously increased demand for power exists, indeed, in many fields; some of which have been already developed to a great extent, others of which have barely started to develop. Railroad electrification—now in its infancy—will result in a tremendous demand for power; obviously too, the Radio—directly in operation, indirectly by the greater use of electricity in the home. Electrical refrigeration for household, business, and railway use is another large field, as yet but scratched on the surface.

The home is still a field for considerable further development, in view of the fact that at present, it is estimated, nearly 9,000,000 homes within reach of central station service use no form of electric energy—this, notwithstanding that electricity in the home is one of the oldest and most aggressively developed electrical fields.