# A Legitimate Business in Worthless Securities

By BRUCE DAVENPORT

**Sells Old Stocks and Bonds Guaranteed to be Worthless. Antique Securities, Found in Estates, Seldom Have Value. Mining Stocks Hopeless, as a Rule. Old Bonds Used as Wall Paper, Brought $14,000 to Buyer. Always Chance of Coming to Life.**

ROLAND M. SMYTHE does a legitimate business in worthless securities.

"I guarantee that the stocks and bonds I sell are worthless," this unique dealer in securities says. "So if they turn out to have some value, my customers are delighted—and I am not displeased. Disposing of batches and bundles of these so-called worthless securities is just a by-product of my business. If I had been required to keep all the stock certificates and ornately engraved bonds that have come into my hands, I would need a warehouse—instead of this little office—to hold them."

The little office is a 15 by 5 foot nook in the Produce Exchange—that historic old structure near Bowling Green, in the lower part of New York. When he first occupied an office in the building, it was one of the sights of the city, pointed out pridefully as the most imposing structure in the financial district. Since its opening in 1878, Mr. Smythe has had space in it and has been accumulating records of the thousands of stocks and bonds of ill-fated and defunct companies.

## Worthless Securities Come to Life

"YOU will note," Mr. Smythe continued, in discussing antiquated and obsolete securities, "that I am a little cautious about using the description 'worthless'—for a stock or a bond that for years has been reputed to be not worth a continental, may become valuable—for one of a thousand reasons. In my forty years of dealing with 'worthless' securities, I have known of many such cases. These are exceptional, I must admit, for my records show that the obligations of nearly a half million corporate enterprises are as dead as the dodo bird—and just about as valueless. Yet every now and then unknown assets belonging to some defunct corporations are found, the rights of a long-forgotten patent become valuable, some irregularity in the reorganization of railroads following a foreclosure of the mortgage makes a security have a potential value, or there appears to be a likelihood of a state making good a repudiated obligation—and there is a demand for some stock or bond. For instance, in 1903 Boston, Hartford and Erie stock, after selling for years at one cent a share, suddenly shot up to as high as sixty cents, and there have been a number of similar cases.

*Roland M. Smythe*

"There is, of course, no open market or continuous bidding for any of these old securities. They are not quoted on any exchange. Yet at times a lively demand springs up for everything in a certain line, without any discoverable reason. The whole supply in sight is exhausted. Then, for years, there may be a lull or a quiescent period when the securities are seemingly not wanted at any price."

"But why should anyone want to buy worthless securities?" I asked.

"The reason that people buy securities is because they do not believe they are worthless. No one knows everything about securities, and the best judges make mistakes. There is always the outside possibility of making a strike. Many buyers are convinced that the securities have some value, or by proper action can be made of value. The buyers of these obsolete stocks can lose little—so the largest class, I would say, is composed of mere speculators, who pay little or nothing for securities in the hope that some of the bonds or stocks in their collections will come to life and bring them a handsome reward.

"Some of these speculative collectors are fascinated with the idea of possessing stocks that have a nominal—if fictitious—value that runs into the millions. Not long ago, a New York trust company was designated as executor of an estate, which included securities having a face value of $50,000,000. As nobody seemed to know anything about the company which had issued the shares or what they were worth, the securities were sent along to me for appraisal. I placed a value of $100 on them and they were sold to me by the trust company for this sum. Later I re-sold them to a collector for $110 but only after I had spent more than $1000 in looking them up.

"There is another class composed of men, who have been directors or owners of stock in corporations, which stock has not been fully paid up to the par value. Under the laws of some states, the stockholder is liable for the difference in price between the subscription price of his stock and par value. This difference is frequently owed to the bondholders. The stockholders, to play safe, desire to get all of these bonds into their own hands to protect their fortune from some obscure claim. This class of buyer is in the market for the old bonds, as a rule.

## Bonds As Wall Paper

"IN recent years, there has been a fad of using worthless securities as wall paper to decorate dens in houses. I have sold a great many securities for that very purpose.

"Not long ago, a doctor in Yonkers bought a lot of securities to paper his den. Some time later, I received a communication from a man in St. Louis who learned that I had acquired through the purchase of unsalable remainders in an estate the bonds issued by a defunct coal mining company. He told me that the mining company had come into possession of a good deal of property and that he, as secretary of the company, wished to get in touch with the present holders of the bonds and call them in for cancellation. I replied that the bonds had been sold to the doctor in Yonkers, and at the same time informed the doctor of his unexpected stroke of good fortune. The secretary, who had a record of the bonds by numbers, asked him to forward the bonds for redemption but the doctor told him this could not be done, explaining that they were plastered on the wall. Some time later, a representative of the mining company went to the doctor's home in Yonkers, climbed up on a step-ladder and cancelled the bonds that had come to life. He got $14,000 for the bonds that were included in a lot of handsomely engraved stocks and bonds for which he paid $40. I always ad-

vise my customers, who buy securities to be used as wall paper, to mount them on canvas instead of on plaster. If they are found to be worth anything, they can be removed successfully for redemption."

"It being so easy to buy a large block of securities that would impress the uninformed man as having great value for little or nothing, are there not many cases where they were put to fraudulent uses?" I asked.

"I know of only one case where a customer of mine has used them to defraud others," Mr. Smythe said. "Many years ago, a man bought a trunk full of obsolete securities from me. It turned out later that he was the notorious "Five Hundred and Twenty Per Cent" Miller and he had displayed this great mass of securities to impress the gullible people of his tremendous resources and to persuade them to intrust their funds to him. I testified in court that these securities were worthless and that he knew this when he bought them from me for an insignificant sum.

"There have always been plenty of frauds in connection with securities. These are of an infinite variety. In recent times, there have been a number of cases of crooks pledging worthless or forged securities as collateral for bank loans, but none of these sharpers have been customers of mine.

"PERHAPS the most famous fraud of this kind was put over in the case of the state of Virginia bonds, which were issued in 1882 and redeemable in 1900. A well-known bank note company engraved the blank bonds for a funded debt issue of several million dollars and shipped them to Richmond. A dispute arose as to who should pay the express charges on them. The state officials declined to do so, and so did the bank note company. Neither would give in. The result was that the express company had the package of blank notes on its hands as unclaimed express. To recover something for its service, the express company sold the blanks at auction and they fell into the hands of a bunch of crooks. The signatures of the state officials were forged and a few years later the bonds were used as collateral for loans. The forgeries were exposed after I checked up with a Virginia official. One Boston bank took a loss of a million dollars on these bonds and a large amount of these securities were found in New York and Lynn, Mass., banks.

"In these days when there are numerous instances of forged securities being offered to banks as collateral, the real source of protection for the banker is to know the character of the borrower and to make only such loans as are sought by men of good repute. A few years ago, it was estimated that the amount of the Virginia blank bonds out was around $2,000,000. They can easily be distinguished by the name of the Kendall Bank Note Company on the lower edge, the date of the bond and its unusual shape."

*He climbed up on a stepladder and cancelled the bonds that had come to life*

As Mr. Smythe indicated, the sale of these obsolete and worthless securities is a sideline that grows out of his main business of appraising old securities that come from the strong boxes of estates, giving information about long-forgotten companies and determining values on unquoted securities in order to fix tax claims. He is the author of two thick volumes on obsolete American securities and corporations and has records of virtually every stock or bond issued during the last half century. His services are constantly sought by larger New York banks in winding up estates that contain antique securities, although he gives information on any old security for a small fee to people all over the country. Many a dream of a huge fortune, resulting from the discovery of an old stock or bond, found in some remote hiding place, is shattered by the information that he supplies.

IT is not often that securities found in ancient safes or hidden recesses are found to have value, Mr. Smythe says; although in some instances lucky individuals have learned that a bit of ornate paper meant small fortunes for them.

As a rule, he confides, the most hopelessly worthless obsolete securities are old oil stocks issued in the sixties and backed chiefly by leases on farms. At the other end of the valuation list come the straight state gold bonds, which have not been finally tested in the courts. There is a fighting chance for some of the municipal securities, which have been repudiated or defaulted. Straight railroad bonds are rated next, while just below those are the railroad-aid bonds issued by the various states, but as a rule the state has sought to shift the responsibility to the railroad, and the carrier has suggested that the bondholders look to the state for satisfaction. Railroad stocks come next, Mr. Smythe says, as a little more hopeless; then industrial stocks; while next to oil stocks and, almost on even terms with them as to worthlessness, are gold and silver mining stocks.

An indication of just how hopeless the situation, with respect to oil stocks is, Mr. Smythe admits that he recovered just

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## A Legitimate Business

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twelve dollars from mining stocks, which came from estates during a ten-year period and had a face value of more than $100,000,000.

### *Repudiated State Bonds*

THERE is one large class of collectors, which specializes in buying up repudiated state bonds.

"It comes as a good deal of a shock to the average person to learn that fourteen of our states have issued bonds and then either repudiated them or defaulted in payments of interest," Mr. Smythe remarked. "Most of these are the southern states, which have assigned as the reasons for their refusal to redeem them the fact that they were issued by the carpetbagger administrations after the Civil War. However, this does not account for all of the issues, by any means, for a number of substantial issues came out before 1860—to build railroads, provide state banks, to construct levies and to arm state militias. In some instances, the states have never permitted the holders to test their validity in their courts and the State Constitutions later enacted have forbidden any payment of principal or interest on them. The South has no monopoly when it comes to failure to honor obligations, however. One northern state defaulted on bonds issued for internal improvements while another repudiated more than $2,000,000 of railroad-aid bonds. Compromises were made later by both states, bondholders receiving a percentage in new bonds in place of the defaulted ones.

"It is the hope that the states will recognize the underlying validity of these bonds and recede from their former position that makes a good many speculative collectors buy up these old issues. The value attached to these bonds pretty well reflects the likelihood of ultimate satisfaction.

"One of the interesting groups of securities on the obsolete list is the Missouri War Claim Certificates. About $3,000,000 in these certificates were issued in payment for services and supplies during the Civil War. The state has never repudiated them, but thus far it has been impossible to collect anything on them. Missouri has acknowledged these certificates as valid, but has made their payment contingent on the receipt of money for the purpose from the Federal government. The Constitution, as enacted, makes their payment impossible until such money shall have been received from the United States. Congress takes the position that it cannot pay this money to the state until Missouri shall first have paid out an equivalent amount upon the certificates of indebtedness. The bondholders are victims of this double responsibility—and are waiting in the hope that something ultimately will be done. The certificates bear interest. The statute of limitations does not run against them, and there appears to be some hope.

"It is this hope that makes a market for this class of securities—some of which are now nearly a hundred years old."


# 173rd Dividend
## on Cities Service Common Stock
# Paid March 1, 1927

The 173rd dividend on Cities Service Company Common stock was paid March 1, 1927.

Cities Service Company paid to its Common stockholders from January 1, 1911, to March 1, 1927, dividends in cash and stock or the equivalent amounting to over $84,000,000.

Dividends on Cities Service Common stock are payable monthly at the annual rate of 6% in cash and 6% in stock. The Company is earning, net to its Common stock and reserves, over 22%. At the present price of this security, its dividends give you a net yield of over 8% on your money.

*Mail the coupon for further information about this investment opportunity*

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### *More Early Americans*

IT is no little job to keep track of the corporate enterprises that died in 1926—let alone digging up the facts about the mortalities of the musty, long extinct early Americans.

"Just look at this!" Mr. Smythe remarked, exhibiting a long, narrow booklet, made up of about twenty printed sheets of the same length as a column of type in a newspaper. "The hundreds of companies listed here are merely those officially declared dead last year by the state of Delaware. Multiply this by about half the number of states—and you'll get some idea of how the supply of worthless securities enlarges from year to year. And what a duplication of names! I have come across more than twenty-five Bonanza Mining Companies, fully thirty different Eureka Mining Companies and a host of Mammoths, Bullions, Aetna, Grey Eagles, Keystones and so forth. And, really one of the most perplexing features about looking up securities is that the home office of a company issuing stocks and bonds is generally not given on the certificates.

"My experience proves how carefully one must examine what is back of the security—the name does not necessarily mean any-

# MIDLAND BANK

LIMITED

*Chairman:*
THE RIGHT HON. R. McKENNA
*Joint Managing Directors:*
FREDERICK HYDE EDGAR W. WOOLLEY

## Statement of Condition

*December 31st, 1926*

| RESOURCES | $5 = £1 |
|---|---|
| Cash in hand and Due from Banks | $356,082,679·77 |
| Money at Call and Short Notice | 113,934,258·15 |
| Investments | 194,267,910·75 |
| Bills Discounted | 233,721,560·10 |
| Advances | 1,002,299,963·73 |
| Liabilities of Customers for Acceptances and Engagements | 185,327,225·96 |
| Bank Premises | 34,682,873·21 |
| Investments in Affiliations | 32,469,045·75 |
| | 2,152,785,517·42 |

| LIABILITIES | |
|---|---|
| Capital Paid up | 63,328,990·00 |
| Surplus | 63,328,990·00 |
| Deposits | 1,840,800,311·46 |
| Acceptances and Engagements | 185,327,225·96 |
| | 2,152,785,517·42 |

**Together with its affiliations the Midland Bank operates 2360 branches in Great Britain and Northern Ireland, and has offices in the Atlantic Liners *Aquitania, Berengaria* and *Mauretania*. The Foreign Branch Office at 196 Piccadilly, London, is specially equipped for the use and convenience of American visitors in London.**

**HEAD OFFICE:**
**5 THREADNEEDLE STREET, LONDON, E.C. 2, ENGLAND**

## *See the Washington Country This Year*

SULGRAVE MANOR, the ancestral home of the Washington family, is a beautiful old Tudor mansion standing in a trim garden in the heart of the hunting counties. Sulgrave Manor's gray, weathered gables, mullioned windows and sombre oak-panelled rooms have stood for more than three centuries. In the South porch are the Washington arms—the origin of the Stars and Stripes. In ancient Sulgrave Church are the Washington memorial brasses, the Washington pew and a massive treasure chest, used for keeping the church's valuables in the days when safe deposits were unknown.

Northampton is the centre for the Washington Country. Motor coaches take you from there to Sulgrave Manor and other places of interest. Northampton is only 1½ hours from London (Euston Station) in the luxurious express trains of the London Midland and Scottish Railway.

For advice and literature about travel in England, Ireland, Scotland and Wales, apply to John Fairman, L.M.S. Agent, 200 Fifth Avenue, New York; S. J. Sharp, 86 Yonge Street, Toronto; or any office of Thomas Cook & Son.

LMS

L.M.S. Railway . Euston Station & St. Pancras Station . London


thing. There is just as much difference between stocks and bonds as there is in people—except that a security may die and later come to life. That one possibility seems to fascinate those who collect obsolete and unknown stocks and bonds."

## Iowa Bankers

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a higher rate, they would be presumed in the eyes of the law as having waived the right of preference in case of liquidation or receivership, and will be classed among the general creditors.

The bankers urge the legislature to lower the rate of interest required on public funds from 2½ to 2 per cent.

### *Tightening Up the Laws That Affect Borrowers*

IOWA is urged to enact a special law that will punish all who make false statements to obtain property or credit. The uniform law as recommended by the American Bankers Association is proposed.

An amendment to put teeth in the existing law which deals with the embezzlement of mortgage property is sought, as the experiences of the past three or four years have proved that it is comparatively easy for unscrupulous persons to sell, conceal or remove property covered by a chattel mortgage or conditional bill of sale, and get away with it.

### *Helping Bank Clearings*

AS the acceptability of bank drafts in clearings has been impaired by the opinion of the Supreme Court of Iowa, that bank drafts can have no preference in case of insolvency on the part of the institution putting them in circulation, the legislature is asked to prescribe that when any draft is issued or drawn against actually existing values by any state bank prior to its failure or closing, and given in payment of clearings only, it shall be a preferred claim and thus rank ahead of all other creditors. This would make bank drafts preferred claims when given for collection items.

To prevent an embarrassment of one bank in a chain system from spreading to the other institutions, it is proposed that all chain or affiliated banking institutions be prohibited from carrying on deposit with each other more than 50 per cent of their own legal reserve.

To aid the growing trust business, the legislature is asked to grant perpetual charters to state banks, savings banks and trust companies doing a fiduciary business.

### *A Resident Examiner Who Knows the Community*

FROM the national standpoint, the most interesting proposal is that which would set up a state-wide system of clearing house examination as a means of providing other safeguards than those contained in the statutes from bank disasters.

The plan calls for dividing Iowa into not less than eleven District Banking Associations. So that there may be rigid, close and familiar examination, it is provided that there may not be more than 80 banks in any district. These associations would be placed under the administration and direction of the state superintendent and the state banking board.

National banks and private banks are to