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INVESTMENT TRUSTS

WALLER CARSON*

SINCE the close of the war, interest in financial circles has increasingly turned toward the Investment Trust. The long record of successful operations of companies of this type in England and Scotland has led many to wonder whether there will not be a similar development in this country in the future. During the past two years much has been written upon the subject, "The Investment Trust," by Lawrence M. Speaker, who probably has given the most thorough discussion which has yet been published. In addition, brief articles have appeared from time to time in Moody's Service, the Standard Daily Trade Service, the Financial World, the Harvard Business Review, the Wall Street Journal, and other similar publications dealing with financial affairs.

The earliest development of the investment trust idea seems to have occurred in Holland in about the year 1820. The plan at that time, which is still in existence today under the name of Bankers Shares, was to spread the risk and secure sounder investments by depositing with a trustee, stocks and bonds of a number of different enterprises, and issuing certificates of interest against the pledged securities. In the usual form today of the "Dutch Type" trust, specified securities are deposited in fixed amounts under trust agreement, and no substitution or change of holdings is permitted.

About twenty years later, we find the British and Scotch beginning to use the device, with the addition of a board of trustees or directors, given authority to dispose of securities and make additional investments. From this time on, the British Type Investment Trust has taken on many of the attributes of the public utility holding company, retaining the principle of wide diversification, avoiding overhead by eschewing control and management, but vesting very wide discretionary powers in the hands of its administrators.

At the present time the British Investment Trust operates as a holding company, or possibly better, a mutual investing association, issuing bonds and preferred stock against its assets, and normally paying in dividends only a portion of its receipts and reinvesting the remainder as a growing reserve against times of stress. It enables the funds of a wide group to be administered by a board of specialists who possess and

* The writer has organized the only two investment trust companies existing in Wisconsin and predicts growing favoritism toward this line of finance.
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develop exceptional ability in handling funds along these lines. Usually
arrangements are made with a bank or trust company to undertake the
physical safekeeping and handling of the investments of the company;
competent statistical service is secured; and the directors are relieved
of all duties but the study and supervision of investment conditions and
security values. In practice, the British have been able to maintain an
average overhead, including salaries and compensation of directors, of
about one half of one per cent on the total funds in use. Earnings have
been surprisingly large in consideration of the conservative nature of
the investment.

The form of organization of the investment trust seems of secondary
importance, so long as it provides for the selection and appointment of
competent administrators, careful restriction of the functions of the
company to the investment of its own funds, limitation of salaries and
overhead, and wide diversification. With competent administration
and wide diversification, investment need not be restricted to high grade
securities. At the present time, in the United States, the few companies
already organized are divided almost equally in type between the trust
and the corporation. The International Securities Trust of New York,
was organized in 1921 with a board of fifteen trustees; the Massachu-
setts Investors Trust, a more recent one, has a board of three; the
Security Investing Company has stated its intention of applying for a
banking charter under the laws of New York; the Wisconsin Invest-
ment Company and the Northwest Security Investing Company are
corporations under the laws of Wisconsin; and an undoubtedly large
number of associations, employee thrift clubs, and so forth, are being
operated by investment houses and banks for the benefit of their em-
ployees only.

The advantages of supervisory companies of this type are many, and
their intelligent development can provide a very desirable means of
safeguarding the funds of investors, encouraging thrift, and fighting
fraud; the weaknesses are obvious, and can be easily guarded against.
The interest of attorneys in providing articles of organization which
guard against these weaknesses, together with the selection of competent
men as administrators, should go far toward making the investment
trust in this country the desirable financial institution it has been for
many years in England.