

# Financial Department

Conducted by WILLIAM LEAVITT STODDARD

The Financial Department is prepared to furnish information regarding standard investment securities, but cannot undertake to advise the purchase of any specific security. It will give to inquirers facts of record or information resulting from expert investigation, and a nominal charge of one dollar

per inquiry will be made for this special service. The Financial Editor regrets that he cannot undertake the discussion of more than five issues of stocks or bonds in reply to any one inquirer. All letters should be addressed to THE OUTLOOK FINANCIAL DEPARTMENT, 120 East 16th Street, New York, N. Y.

## Transferring Stock

WHEN Elliott B. Jones sells a block of one hundred shares of stock, a number of things take place of which he, an average stockholder, has not the least notion. The stock is transferred to the buyer, who may be a broker or another individual. This means that legal ownership passes, and stock, like land, does not pass without

the fact being duly recorded in the place devised for that purpose. There are exceptions to this rule, but this is the general rule.

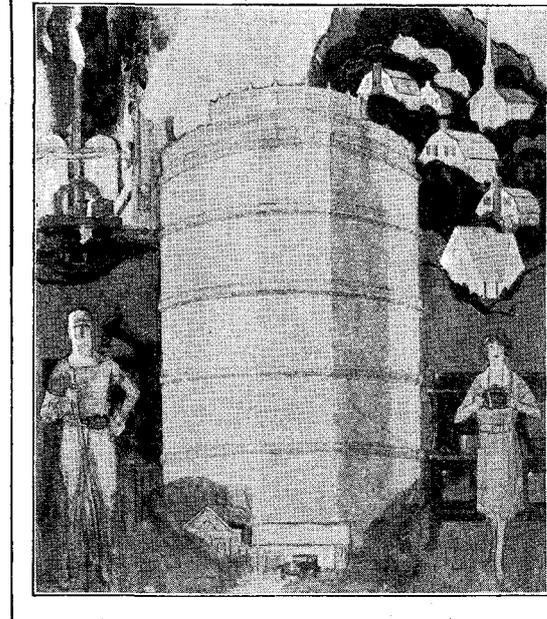
These remarks, prefatory to a discussion which we trust will interest our readers generally, was inspired by an inquiry from a valued reader. "Recently, says this reader, "I pur-

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THE gas business has not suffered from electric competition. On the contrary, both domestic and industrial consumption of gas is increasing—in late years at a rate almost equal to that of electricity. Sales of manufactured gas were over 450 billion cubic feet in 1926—double the amount ten years ago and four times greater than in 1900. Natural gas consumption in the same period increased from about 100 billion to more than 1200 billion cubic feet.

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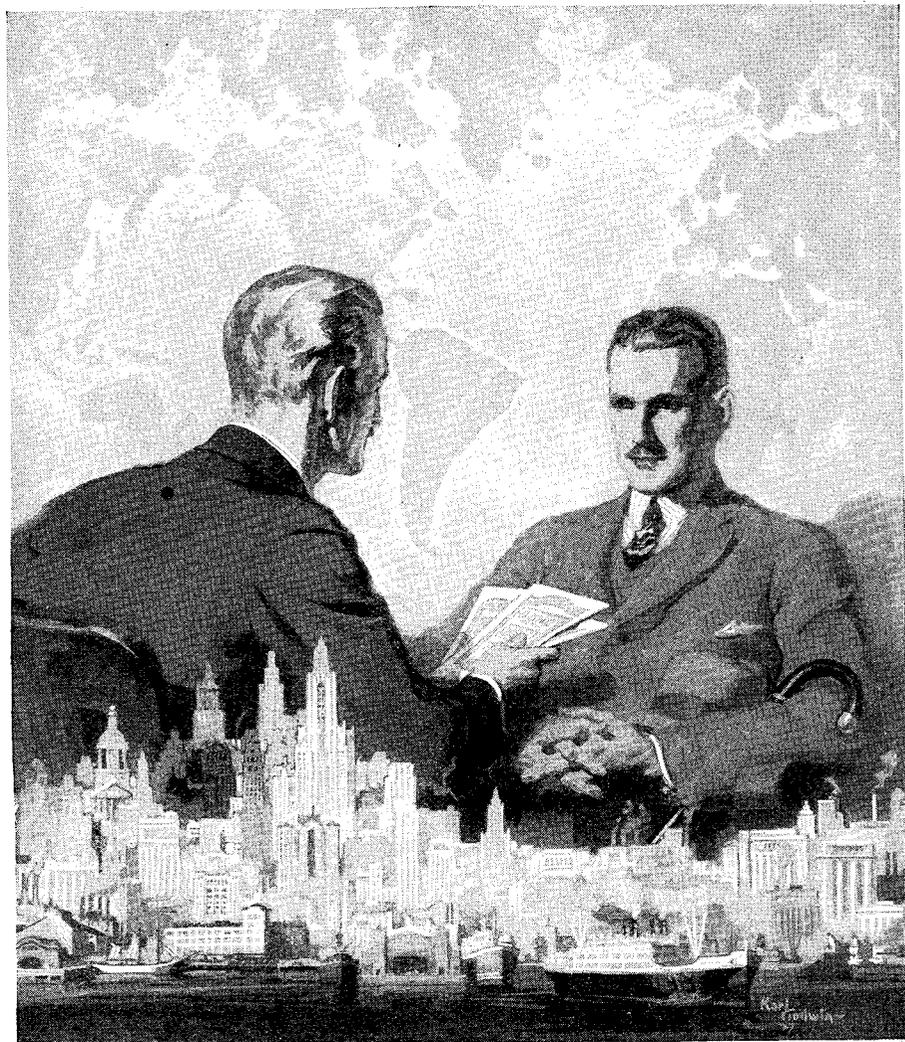
chased \$500 worth of stock. I received a letter from the dealers asking me to advise them as to 'registration and delivery.' After asking round, the best knowledge I could get was that registration was protection against loss. . . . Now I would like to know what difference it makes whether the stock was in my name as long as I had the certificate? . . . Thinking, perhaps, that others are as ignorant as myself in the matter I was bold to ask you to discuss the matter at some future time." This postscript is also of interest, "The certificate was originally made out to another person. He had properly surrendered his claim to it."

In practically every State of the Union there is to-day a law affecting the transfer of stock certificates. Before the passage of these laws, fraud was possible and was often committed. For example, the president of a well-known railroad system was transfer agent for the stock of his company and, as such, had in his possession stock certificates which needed only his signature to make them valuable. This particular gentleman, when a certificate came in for transfer, would issue a new certificate to the new owner and would sell the old one in the market. Of course he should have cancelled the old one. Also, he issued shares of stock without any corporate authority to do so. In the course of time there were some 350 stockholders of the company who possessed these illegal shares.

In consequence of such cases the law stepped in and provided certain safeguards. In New York State, for instance, the Constitution provides that corporations whose shares are admitted to dealings on the Exchange must maintain a transfer agency and an agency office in New York City. Both these offices must be acceptable to the Stock Exchange and must agree to comply with the requirements of the Stock Exchange.

In common practice the large corporations appoint one bank or trust company to act as transfer agent, and another to act as registrar. Some corporations, notably U. S. Steel and American Telephone & Telegraph, maintain their own departments for these purposes. It is the function of the transfer agent and registrar to see that original issues of stock are in accordance with the law and the by-laws of the issuing corporation and to handle the complex questions that arise when stock is transferred.

To understand the reason for these precautions, it must be remembered that a stock certificate is a paper which certifies that So-and-So is the owner of so many shares of stock in Such-and-Such



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a corporation. The fact of such ownership is entered in books kept for that purpose. Ownership cannot be changed except upon surrender of the stock certificate to the Transfer Agent, properly endorsed, its cancellation, and the issuance of the same number of shares to a new owner.

In practice, what happens when one imaginary Elliott B. Jones buys 100 shares of Blank & Co. common?

After the broker receives the order he executes it through the Stock Exchange, which informs him of the price. When the customer pays the broker and the broker the owner (who is, perhaps, another customer of another broker), a certificate for 100 shares is delivered to the new owner, through his broker. This certificate may be made out in the name of Mr. Jones, or it may be made out in the name of the broker, depending on the wishes of Mr. Jones. Let us examine this a little further.

If the customer has bought the stock with the intention of holding it for investment he, probably, orders it brought out in his own name. This means that on the books of the transfer agent, his name appears as the owner. His name also appears on the books which are kept either by the transfer agent or by the company itself to show to whom dividends are due. Until this certificate comes back to the transfer agent, duly endorsed for sale by Mr. Jones, he is the legal owner so far as the transfer agent is concerned. He may lose the certificate, or it may be destroyed—he is still the owner and can, under proper safeguards, get another one.

Suppose, however, that Mr. Jones is buying and selling stocks through his broker. In this case the certificate comes out in the name of the broker for the account of Mr. Jones, the dividends received by the broker being credited to Mr. Jones's account. The broker is the legal owner on the books of the transfer agent, but so long as the broker is solvent and honest, Mr. Jones has nothing to fear because the broker is legally accountable to him, on demand, for the stock. (Incidentally, the reader will see from this why it is important, in selecting a broker, to select one who is beyond question of high repute).

Stock certificates which are in the name of brokers are called "street certificates" for the reason that they are in the name of brokers whose signatures are recognized on Wall Street, or State Street, or whatever the financial street may be called. When one of these certificates comes to a transfer agent, endorsed, the clerk knows the signature because of long familiarity with it, or

checks it up by consulting his signature card file, and the transfer goes through.

When, however, Elliott B. Jones personally brings in or mails in, a stock certificate in his own name, signed by himself, the transfer agent will not take it unless the signature is guaranteed either by a stock exchange firm or by an officer of a substantial bank or trust company. The reason for this is simple: the transfer agent is there to protect the corporation and the stockholders against fraud. There is no more common fraud than forgery, and as good a protection against fraud as any is to have a written guarantee of a responsible bank or stock exchange house.

It would be possible to fill several pages with a discussion of this subject, but we have probably said enough to give the reader a general idea of the theory and practice of transferring stock. The basic thing to remember is that this is a *process of registering property ownership*, similar in many ways in principle to the registering of ownership in land by means of a deed. A man buys land of B, but his purchase is not complete till a deed in his name has been recorded. In the case of stock, an intermediary, as a broker, may hold ownership for the buyer, but the ordinary method is for a transfer to the individual purchaser to be made on the books of the corporation, *i. e.*, on the books of its transfer agent.

Questions of transfer of stock certificates are complicated by death, when an administrator or executor claims title; by trusts, when the trustees claim title; and by loss of certificate, when certain formalities have to be gone through before the certificate can be replaced. Again, there are certain things which cannot be done, or which should not be done. For example, few transfer agents are willing to issue a stock certificate in the name of "A or B." This would be indeterminate ownership. "A and B" is practicable. Lastly, transfer agents are loth, knowingly, to issue a certificate in the name of a minor. The legal reason for this is, of course, common knowledge.

Our advice to those who are having any difficulty in making stock transfers is to consult a stock exchange house or bank familiar with the procedure and be guided by such advice. The transfer agents themselves at times seem to the uninitiated to be needlessly exacting, but whatever complications there are have been created by the necessity of protecting property rights, and usually, upon careful study, it will be found that they are basically reasonable and sound. W. L. S.