

In these later prospectuses it is stated, under the heading "Insurance Principles applied to Investments,"—

"The sponsors of the trust believe that in the shares and debentures of the trust they are offering to the public one of the most desirable investments it is possible to secure. The chief element of sound investing practice is diversification, or the spreading of capital over a large number of sound revenue-producing investments, thus ensuring safety of principal and regularity of income.

"The policy of spreading capital over a large number of sound investments has been adopted by the trust, and plans are being made for the spreading of capital received from the sale of debentures in the second issue over at least one hundred separate investments within the next six months."

168. Technically, no doubt, the foregoing was largely complied with, but, in view of the very large sums placed in individual and, indeed, doubtful securities, it cannot fairly be claimed that the principle of diversification has been practised or that investments have been properly "spread."

169. The second and subsequent prospectuses issued state, under the heading "Income,"—

"Probably at no previous stage in the world's financial history has such an opportunity as that now offered by the trust been presented to investors for purchasing a collective interest in a large number of the world's soundest investments which can to-day be bought at prices much below their real value. The trust will use its capital to acquire a large number of well-distributed investments of this class, which should not only provide an immediate income, but should in a few years ensure a substantial increase in the market value of the investments held. The market quotations of forty British investment trusts listed on the London Stock Exchange in 1931 proved that for each £100 originally invested in that group a holder could then obtain an average of £260 on the London Stock Exchange, while the average annual rate of income on shares in the trusts was then 16 per cent."

170. In view of the actual investment practice of the trust, the foregoing may be characterized as specious and misleading.

171. In the second prospectus it is stated,—

"The trust held 195 separate investments on December 31st, 1932, spread over Government stocks, local-body debentures, and first-mortgage debentures, or shares in banking, insurance, finance, and industrial companies.

"Excluding Government stocks and local-body debentures, the aggregate capital of the companies in which the trust held investments was £650,000,000, and the total reserves of these companies stand at £158,000,000. The average period during which each company has been in existence is thirty-one years."

172. A similar statement appeared in the third prospectus, although in this prospectus the number of separate investments was altered from 195 to 180 and the figure of total reserves was altered from £158,000,000 to £159,000,000. There was no corresponding statement in the fourth prospectus.

173. The foregoing was, in our opinion, undoubtedly intended to stress the principle of diversification as an inducement to investors to invest in the debentures of the trust, and, in view of the actual practice adopted by the trust, was very misleading to investors.

174. By way of further illustration of the stressing by the Investment Executive Trust of New Zealand, Ltd., of the principle of "diversification" we quote the following extract from a copyrighted pamphlet by J. W. S. McArthur entitled "Insuring Investments: A Synopsis of Investment Trust Principles with Graphical Illustrations":—

"Diversification, or spreading investment capital over several types of securities or investments, is the chief element in sound investing practice. Though a well-selected security seldom fails entirely, there is a risk of loss with any single investment. This risk can be offset by a proper distribution of investment capital.

"The more the investor studies the science of investment the more loudly he preaches the gospel of distribution.

"It is highly improbable that the partial or complete failure of one concern would materially affect the securities in a well-selected group of diversified investments . . .

"The function of the investment trust is to afford the opportunity of investing comparatively small amounts in a large number of securities diversified according to undertaking, geographical location, and type of security. The result is that with careful management a maximum return can be had with a minimum risk, based upon safe marketable investments."

175. Representatives of V. B. McInnes and Co., Ltd., brokers to the Investment Executive Trust of New Zealand, Ltd., were supplied with large charts incorporating a world map and stressing graphically the security of the "trust investor." These charts are headed "The Southern British National Trust, Ltd., in association with the Investment Executive Trust of New Zealand, Ltd." On these charts is stated,—

"Actual overseas holdings include—

- "(1) Bank of England stock.
- "(2) Lloyds Bank, Ltd., London.
- "(3) London County Council debentures.
- "(4) The International Nickel Co. of Canada, Ltd.
- "(5) Imperial Chemical Industries, Ltd.
- "(6) Lever Bros., Ltd., Great Britain.
- "(7) Dunlop Rubber Co., Ltd.
- "(8) J. & P. Coats, Ltd.
- "(9) British South Africa Co., Ltd.
- "(10) The Canadian Pacific Railway Co."