CHAPTER VI

WHAT KIND OF BONDS TO BUY

IT is well to explain at this point the difference between the various classes of bonds which are being offered, for the difference is very great. Before describing these various classes, however, it is important that the exact difference between stockholders and bondholders be understood.

A quotation from the Babson Instruction Courses on Investments which teach the underlying principles of investments is here given. "Suppose a merchant owning property borrows $1,000. He gives his note promising to pay on a certain date, at a certain rate of interest, and gives a mortgage on his property as security for the loan and interest. Now the *merchant*, who owns the property and borrows the money, corresponds to the *stockholders* of a corporation. The note secured by the mortgage corresponds to the bonds which said corporation issues. The party *who loans* the money corresponds to the *bondholders*, or the investors who buy the bonds.

"Suppose a corporation owning a large property wants to borrow $500,000. The corporation makes a mortgage on all its property to a trust company, to be held in trust as security for all the persons who are to loan the money. The corporation then issues 500 bonds of $1,000 each, to a total of $500,000, each bond promising to pay to the owner