

## CHAPTER X

### SELECTING RAILROAD STOCKS

WE have considered the three main features of a railroad report: first, the amount required for fixed charges, second, the amount required for operating expenses, and third, that portion of operating expenses used for maintenance. So far as the *bond* buyer is concerned, these are practically the only items he need seriously consider. Before purchasing the *stock* of a railroad, however, there are other features which should be studied, the principal of which is the percentage of gross earnings available for dividends, or to go a step further, *the percentage earned on the stock*.

#### How the Expert Writes His Report

When the stock of a railroad is being considered, it is generally assumed that the client would not consider said stock, unless the bonds are perfectly good. Therefore, if the relation of fixed charges to the net and gross earnings is satisfactory, an effort is then made only to ascertain *first*, the per cent of gross remaining for maintenance and dividends after the payment of necessary operating expenses and fixed charges; and *second*, the amount remaining for dividends on the Preferred and Common stocks after the payment of all operating expenses including maintenance, together with