

STOCK EXCHANGE PRACTICES

THURSDAY, MAY 19, 1932

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The Committee met at 10 o'clock a. m., pursuant to adjournment on Tuesday, April 26, 1932, in room 301 Senate Office Building, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Brookhart, Goldsborough, Townsend, Walcott, Carey, Watson, Couzens, Fletcher, Glass, and Barkley.

Present also: William A. Gray, Esq., counsel to the committee.

The CHAIRMAN. The committee will come to order.

Mr. GRAY. I think I should say to the chairman and members of the committee in order that they may follow this particular transaction, and then afterwards other transactions, that I am going to present the picture of a pool that was run in new Radio stock between the dates of March 12 and March 20 of 1929, those being the actual days of the operation.

I am going to show who was in that pool. I am going to show what the transactions were in the aggregate, what its profit was. And I am going finally to ascertain from some of these witnesses who have been subpoenaed, two partners of M. J. Meehan & Co., one of them a specialist in this particular stock, about some of the things that require explanation in connection with the situation, there being in one particular part of the transaction some \$92,000 paid out to people who were not participants in the pool.

I will also show who were in the pool, what moneys the pool itself made, what moneys the brokerage firm made in connection with it. I am going to inquire as to certain of these transactions, and I have here and will produce and offer in evidence a syndicate agreement, so called, or pool agreement, in connection with the transaction.

Mr. Bragg was sworn before. Mr. Chairman, I do not know whether you desire to swear him again or not.

The CHAIRMAN. No. He having already been sworn, it is unnecessary to do so again, inasmuch as this is a continuation of the same investigation.

TESTIMONY OF THOMAS E. BRAGG, NEW YORK CITY—Resumed

Senator FLETCHER. Mr. Gray, let me inquire for information before you begin interrogating the witness: Is this just an isolated case or is it a typical case?

Mr. GRAY. It is a typical case. We have some other pools which we will also show and which involve some other, as we think, bad

practices, the same we think that this one had, and we think this will show a picture of the typical pool.

Senator FLETCHER. All right.

The CHAIRMAN. You may proceed, Mr. Gray.

Mr. GRAY. Mr. Bragg, you have already been identified in the testimony taken before the committee as a gentleman living in New York and trading in stocks on the New York Stock Exchange. And I believe you have already testified that you have no present connection with any brokerage house. Is that correct?

Mr. BRAGG. That is right.

Mr. GRAY. That you were formerly a member of W. E. Hutton & Co., a brokerage house in New York.

Mr. BRAGG. Yes, sir.

Mr. GRAY. And some time, if I recollect it correctly, in April of 1928 until when?

Mr. BRAGG. Until November of 1930.

Mr. GRAY. Until November of 1930.

Mr. BRAGG. Yes, sir.

Mr. GRAY. So that in the spring of 1929 you were a member of the firm of W. E. Hutton & Co.?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Now, Mr. Bragg, I am directing your attention to a pool known as the new radio pool, which took place in March of 1929. You were a participant in that pool, I believe.

Mr. BRAGG. My wife was.

Mr. GRAY. Your wife was a member of that pool.

Mr. BRAGG. Yes, sir.

Mr. GRAY. And her name for the record is Vera Bragg.

Mr. BRAGG. Yes, sir.

Mr. GRAY. And you yourself were the manager of that pool?

Mr. BRAGG. Yes, sir.

Mr. GRAY. I believe you testified, however, at the last session when you were here as a witness that you were in Florida then.

Mr. BRAGG. Yes, sir.

Mr. GRAY. Who else managed that pool besides you?

Mr. BRAGG. Bradford Ellsworth.

Mr. GRAY. You were the nominal managers of that pool?

Mr. BRAGG. Yes, sir.

Mr. GRAY. As a matter of fact, however, you had nothing to do with the conduct of the transactions, the giving of orders to buy and sell, did you?

Mr. BRAGG. In the matter of the actual orders; no, sir.

Mr. GRAY. Where is Mr. Ellsworth to-day, do you know?

Mr. BRAGG. I do not know.

Mr. GRAY. You say you do not know where he is?

Mr. BRAGG. No, sir.

Mr. GRAY. You know that he is not now in New York City, do you?

Mr. BRAGG. I know that he was not in New York City last week.

Mr. GRAY. And he has not been in New York City this week?

Mr. BRAGG. No, sir.

Mr. GRAY. You have seen, have you not, a copy of the syndicate agreement or pool agreement in this matter?

Mr. BRAGG. Yes, sir.

Mr. GRAY. I show you a paper and ask you whether or not that is a copy of the syndicate agreement. And I will now ask the committee reporter to mark this in its order with a number. I do not know what the number is, but I now suggest that it be marked Exhibit No. 1 as beginning of this date. Now, Mr. Bragg, is that a copy of the syndicate agreement?

Mr. BRAGG. Yes, sir.

(A 3-page printed paper headed "Private and Confidential, M. J. Meehan & Co., 61 Broadway, New York, Radio Corporation of America Common Stock Syndicate (new stock), New York, March 7, 1929" is identified by being marked "Committee Exhibit No. 1, May 19, 1932," and will be returned to counsel to the committee.)

Mr. GRAY. Mr. Bragg, this pool was operated through the firm of M. J. Meehan & Co. and through the firm of W. E. Hutton & Co., is that correct?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Block, Maloney & Co. also had a participation in that pool, is that correct?

Mr. BRAGG. Well, I do not recall.

Mr. GRAY. Well, if you do not recall it I will establish it in another way.

Mr. BRAGG. I am not sure about them.

Mr. GRAY. The actual buying and selling of the most of the stock was done through M. J. Meehan & Co., isn't that correct?

Mr. BRAGG. Yes, sir; I think so.

Mr. GRAY. And do you yourself know over what period of time those sales and buys were made?

Mr. BRAGG. No; I do not absolutely know that.

Senator COUZENS. Mr. Chairman, we can not hear down here at this end of the table at all.

The CHAIRMAN. The witness will speak louder.

Mr. GRAY. Mr. Bragg, please keep your voice up so that all members of the committee may hear you.

Mr. BRAGG. All right.

Mr. GRAY. I am going to hand this paper to the reporter to be marked as an exhibit in this case as of to-day, and I want to call the committee's attention, without reading it all, to the fact that it is a circular form issued by M. J. Meehan & Co., members of the New York Stock Exchange, and it is marked at the top "Private and confidential" and the heading also bears "Radio Corporation of America Common Stock Syndicate (new stock)"; that it is dated March 7, 1929, and starts out by saying:

We have been requested to form and are forming a syndicate, of which we are to be the managers, to trade in the common stock of the Radio Corporation of America, and no other securities; and have reserved for you a participation of _____ shares.

The commitment of the syndicate shall not at any time exceed 1,000,000 shares, either long or short; and all transactions for the account of the syndicate shall be in accordance with and subject to the rules and regulations of the New York Stock Exchange.

There are then provisions with respect to the rights of the management. And then a paragraph at the end that the managers are to receive 10 per cent of the net profits of the syndicate as and for their services to be rendered herein, said payment to be made prior to distribution of the profits of said syndicate among the partici-

pants. And then at the bottom there is a place for persons to accept a participation in the syndicate.

Now, Mr. Bragg, you as one of the managers did get, along with Mr. Ellsworth, 10 per cent of the profits.

Mr. BRAGG. Yes, sir.

Mr. GRAY. But you were in Florida and did not manage it. M. J. Meehan & Co. did manage it. Now, who got the money?

Mr. BRAGG. I got my share of it.

Mr. GRAY. You got your share of it?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Although you were in Florida at the time?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Are you at all familiar with the developments of the pool?

Mr. BRAGG. With the detailed trading; no, sir.

Mr. GRAY. Are you familiar with who were in the pool?

Mr. BRAGG. Just those that were in it through W. E. Hutton & Co.

Mr. GRAY. Mr. Chairman and members of the committee, I think it might be just as well if at this point I submit to the committee the result of a fairly thorough examination, and I use the expression "fairly thorough examination" because there are important phases we would like to trace out a little further, such as what became of the syndicate moneys when checks were drawn to certain people; I say, to give to the committee at this time another exhibit, that I will hand to the committee reporter, and to which I will call the committee's attention by reading therefrom. Although this pool was organized on March 7, 1929, and was not closed until March 30, 1929, its actual operations in stock took place between March 12 and March 19, 1929, or within a period of one week. The participators in the pool were:

Nicholas F. Brady, 50,000 shares, who deposited \$1,000,000 and made a profit therefrom of \$291,710.80.

Thomas J. Regan, 50,000 shares, who deposited \$1,000,000, and who made a profit of \$291,710.80.

W. F. Kenny, 50,000 shares, who deposited \$1,000,000, and made a profit of \$291,710.80.

J. J. Raskob, who had 50,000 shares, and who put up a deposit of \$1,000,000, and made a profit of \$291,710.80.

Bradford Ellsworth, one of the managers of the pool, who had 25,000 shares, and put up \$500,000, and who made a profit of \$145,855.39.

J. E. Higgins, who had 25,000 shares, and who made a deposit of \$500,000, with a profit of \$145,855.39.

T. J. Nara, who had 15,000 shares, but who put up no deposit at all, but with a profit of \$87,513.24.

George F. Breen, who has 12,500 shares, with a deposit of \$250,000, who made a profit of \$72,927.70.

Lawrence P. Fisher, who had 12,500 shares, and who made a deposit of \$187,500, with a profit of \$72,927.70.

J. J. Riordan, who had 10,000 shares, but who put up no money, and made a profit of \$58,342.15.

Mrs. Olive Eddy, who had 10,000 shares, and who put up a deposit of \$200,000, and made a profit of \$58,342.15.

Mrs. M. J. Meehan, who had 50,000 shares, and put up a deposit of \$1,000,000, with a profit of \$291,710.80.

Mrs. M. J. Meehan again, with 15,000 shares, and who put up no deposit, with a profit of \$87,513.24.

J. H. Holmes & Co., who had 15,000 shares, and who made a deposit of \$300,000 according to the books, and with a profit of \$87,513.24.

Conway & Co., with 20,000 shares, and a deposit of \$400,000, made a profit of \$116,684.32.

E. W. Harden, with 20,000 shares, and a deposit of \$400,000, made a profit of \$116,684.32.

W. C. Durant, who had 25,000 shares, and who made a deposit of \$400,000, had a profit of \$145,855.39.

Jackson Bros. & Boesel had 20,000 shares, put up a deposit of \$400,000, and made a profit of \$116,684.32.

Walter P. Chrysler had 25,000 shares, and put up a deposit of \$500,000, and had a profit of \$145,855.39.

Joe Toplinsky had 16,500 shares, put up a deposit of \$330,000, and had a profit of \$93,264.56.

Jesup & Lamont had 5,000 shares, put up a deposit of \$100,000, and had a profit of \$29,171.08.

Charles M. Schwab had 10,000 shares, put up a deposit of \$200,000, and had a profit of \$58,342.15.

Mrs. D. Sarnoff had 10,000 shares, put up no money, and had a profit of \$58,342.15.

H. B. Swope had 10,000 shares, put up no money, and had a profit of \$58,342.15.

The total number of shares that these persons took through M. J. Meehan & Co. was 551,500. They deposited a total of \$9,667,500, with a profit of \$3,217,570.03. I pause for a moment to ask Mr. Bragg first: George F. Breen is a man who in the parlance of the street is a trader in New York City, is he not?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Mrs. M. J. Meehan is the wife of M. J. Meehan who was a member of the brokerage firm of M. J. Meehan & Co. that conducted this pool, isn't that correct?

Mr. BRAGG. Yes, sir; I think so.

Mr. GRAY. And E. W. Harden is the head of the brokerage firm of that name that are members of the New York Stock Exchange, isn't that right?

Mr. BRAGG. I think so. He is a partner of—

Mr. GRAY (interposing). And W. C. Durant is a trader?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Jackson Bros. & Boesel are members of the New York Stock Exchange, is that correct?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Walter P. Chrysler is the head of the Chrysler Co., is he not?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Jesup & Lamont are members of the New York Stock Exchange?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Mrs. D. Sarnoff is the wife of the head of the Radio Corporation of America, is she not?

Mr. BRAGG. I would think so; yes, sir.

Mr. GRAY. Now, the participators in W. E. Hutton & Co. in this pool were:

G. D. Smith, who had 25,000 shares and who put up a deposit of \$100,000, and made a profit of \$145,855.40.

Vera Bragg, who had 25,000 shares, and put up a deposit of \$100,000, and made a profit of \$145,855.40.

Vera Bragg and G. D. Smith, who had a joint account of 25,000 shares, and who put up a deposit of \$300,000, and made a profit of \$116,684.32.

American Brush Co., that had 25,000 shares and put up a deposit of \$375,000, made a profit of \$145,855.40.

Richard Arthur, who had 3,000 shares, and made a deposit of \$45,000, with a profit of \$17,502.65.

Dr. E. Caldwell, who had 2,500 shares, and put up a deposit of \$37,500, with a profit of \$14,585.55.

Cliffwood Corporation had 10,000 shares, put up a deposit of \$150,000, and had a profit of \$58,342.16.

The CHAIRMAN. Mr. Gray, you are reading too fast for these newspaper reporters. They would like an opportunity to get this matter.

Mr. GRAY. Very well. I will try to read a little more slowly.

The CHAIRMAN. Or will you be able to furnish them the figures?

Mr. GRAY. I will be glad to furnish the figures as soon as I get through. But I must give this paper to the committee reporter.

The CHAIRMAN. All right. Proceed.

Mr. GRAY (reading):

The next participant in W. E. Hutton & Co. is A. Wilson, who had 1,000 shares, and who put up a deposit of \$15,000, with a profit of \$5,834.22.

D. C. Millar, who had 5,000 shares, with a deposit of \$75,000, and who made a profit of \$29,171.08.

D. G. Millar again, with 2,000 shares and a deposit of \$30,000, made a profit of \$11,668.43.

Victor Klinker, with 1,250 shares and who made a deposit of \$20,000, had a profit of \$7,292.77.

H. P. Wiggin had 2,500 shares, and made a deposit of \$38,000, with a profit of \$14,585.55.

John O'Malley, who had 2,000 shares, and who put up a deposit of \$30,000, made a profit of \$11,668.43.

Berry Holding Co., who had 6,500 shares, and put up a deposit of \$100,000, with a profit of \$37,922.40.

R. A. Hames, who had 2,000 shares and put up a deposit of \$30,000, made a profit of \$11,668.43.

C. M. Weatherwax, who had 1,250 shares and put up a deposit of \$20,000, made a profit of \$7,292.77.

E. R. Alexander, who had 500 shares and put up a deposit of \$10,000, made a profit of \$2,917.10.

Sir Harry McGowan, who had 10,000 shares and put up a deposit of \$180,000, made a profit of \$58,342.16.

The totals in W. E. Hutton & Co.'s participation were 144,500 shares, with deposits of \$1,655,500, and profits of \$843,044.22. No; I see that this is carried forward to another sheet. I will continue giving W. E. Hutton & Co.'s participation before I give the grand totals:

Briggs Commercial & Development Co. had 10,000 shares, put up a deposit of \$150,000, and made a profit of \$58,342.16.

E. Hockstetter had 10,000 shares, put up a deposit of \$150,000, and made a profit of \$58,342.16.

Percy A. Rockefeller had 5,000 shares, put up a deposit of \$75,000, and made a profit of \$29,171.08.

Mrs. Ed. Weisl had 10,000 shares, put up a deposit of \$150,000, and made a profit of \$58,342.16.

L. P. Fisher had 10,000 shares, put up a deposit of \$150,000, and made a profit of \$58,342.16.

Wesson Seyburn had 5,000 shares, put up a deposit of \$75,000, and made a profit of \$29,171.08.

Charles T. Fisher had 10,000 shares, put up a deposit of \$150,000, and made a profit of \$58,342.16.

William A. Fisher had 5,000 shares, put up a deposit of \$75,000, and made a profit of \$29,171.08.

A. J. Fisher had 5,000 shares, but put up no money at all, and made a profit of \$29,171.08.

Fred J. Fisher had 10,000 shares, put up no deposit, but made a profit of \$58,342.16.

E. F. Fisher had 5,000 shares, put up no deposit, and made a profit of \$29,171.08.

J. A. Stillman had 5,000 shares, put up a deposit of \$100,000, and made a profit of \$29,171.08.

Lee Olwell had 1,000 shares, put up no deposit, but made a profit of \$5,834.22.

Dr. P. M. Gransman had 1,000 shares, put up no deposit, and made a profit of \$5,834.22.

T. Clark had 1,000 shares, put up no deposit, but made a profit of \$5,834.22.

T. E. Bragg, P. A. Rockefeller, and B. E. Smith had 8,000 shares in joint account, put up no deposit, but made a profit of \$46,073.73.

Jack Soloman had 2,000 shares, put up no deposit, but had a profit of \$11,668.43.

H. Cunningham had 10,000 shares, put up no deposit, but had a profit of \$58,342.16.

Now, the total number of shares participated in through W. E. Hutton & Co. was 257,500, with total deposits of \$2,730,500, and total profits of \$1,502,310.68.

Now, Block-Maloney Co. had a small participation in their brokerage firm. But at this point I will go back and ask Mr. Bragg about some of these names. No; I will go ahead first with this list and then come back to that:

Mrs. P. J. Maloney, sr., had 7,000 shares, but put up no deposit, and still had a profit of \$40,839.51.

Mrs. P. J. Maloney, jr., had 7,000 shares, put up no deposit, and had a like profit of \$40,839.51.

T. F. Friel had 500 shares, put up a deposit of \$10,000, and made a profit of \$2,917.11.

B. P. Haws had 3,500 shares, put up a deposit of \$70,000, and made a profit of \$20,419.75.

R. T. Stone, special, had 1,500 shares, put up a deposit of \$25,000, and made a profit of \$8,751.33.

H. D. Kersey had 2,500 shares, put up a deposit of \$40,000, and made a profit of \$14,585.54.

C. A. Butler had 2,500 shares, put up a deposit of \$30,000, but made a profit of \$14,585.54.

Mrs. D. Cahalan had 500 shares, put up a deposit of \$10,000, and made a profit of \$2,917.11.

C. B. Richards & Co. had 5,000 shares, put up a deposit of \$100,000, and made a profit of \$29,171.08.

Walter Richards had 5,000 shares, but put up no deposit, and had a profit of \$29,171.08.

I have not the individual totals for Block, Maloney & Co., but the general totals for the three participating firms were 844,000 shares, participating in the syndicate, with deposits of \$12,683,000, and profits of \$4,924,078.27 in the matter of seven days' trading.

Now, M. J. Meehan—

Senator FLETCHER (interposing). Mr. Gray, maybe you are going to have Mr. Bragg explain how it is that some of them put up a deposit and some put up no deposit and yet they made a profit.

Mr. GRAY. I shall ask Mr. Bragg about that, and if he does not explain it, I have two members of the firm of M. J. Meehan & Co. that I propose to interrogate about that and other things in connection with this matter. I am going back to ask Mr. Bragg about certain people in order to get the information in the record. In connection with the participation of W. E. Hutton & Co. I find Vera Bragg and G. D. Smith. That means Gertrude D. Smith, who is the wife of Ben Smith.

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Vera Bragg is your wife?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Those two had a joint account?

Mr. BRAGG. Yes, sir.

Mr. GRAY. The American Brush Co. is a concern owned and controlled as far as the records are concerned by George S. Brush, a brother of Matthew C. Brush, is it not?

Mr. BRAGG. Yes, sir.

Mr. GRAY. In other words, it is a personal trading company.

Mr. BRAGG. Yes, sir.

Mr. GRAY. Not an investment trust?

Mr. BRAGG. No, sir.

Mr. GRAY. The Cliffwood Corporation is a trading corporation that belongs to you?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And belongs to you solely?

Mr. BRAGG. Yes, sir.

Mr. GRAY. D. G. Millar is shown as having had 7,000 shares in this trading, and he is secretary to Matthew C. Brush, isn't he?

Mr. BRAGG. And he is vice president of the American International Corporation.

Mr. GRAY. And he is Brush's right-hand man.

Mr. BRAGG. Yes, sir.

Mr. GRAY. Who are the Berry Holding Co., do you know?

Mr. BRAGG. Yes, sir; they are oil people in California.

Mr. GRAY. And what about the Briggs Commercial & Development Co.? That is a trading concern, isn't it?

Mr. BRAGG. Yes, sir.

Mr. GRAY. That is a trading corporation the same as your Cliffwood Corporation?

Mr. BRAGG. Well, it is a much larger company and deals in real estate as well, I think.

Mr. GRAY. We know who Mr. Percy A. Rockefeller is. Now, how about Mrs. Ed. Weisl? She is the wife of the representative of a brokerage house in New York City, isn't she?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And the Fishers, L. P., Charles T., William A., A. J., and Fred J., are brothers?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And J. A. Stillman was formerly the president of the National City Bank of New York?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Now, the account of T. E. Bragg, Percy A. Rockefeller, and B. E. Smith is a joint account that started in with the purpose of dealing in Lima Locomotive and then took an interest in Radio!

Mr. BRAGG. Yes, sir.

Mr. GRAY. I will say to the members of the committee that I think there is nothing particularly significant in the name Block-Maloney Co., but—

Senator WATSON (interposing). Mr. Gray, I have to go to the Senate at 11 o'clock. I should like to ask you a question or two for my own information: Was there cooperation among these three different companies?

Mr. GRAY. I am going to try to show you that, because I am going to ask the specialist and the other member of the firm to explain certain transactions where W. E. Hutton & Co. bought certain stock

while W. E. Hutton & Co. sold certain stock. And where M. J. Meehan & Co. bought certain stock and M. J. Meehan & Co. sold certain stock. Where Meehan & Co. sold stock to Vera Bragg, a member of the syndicate, and sold to Higgins, and where Higgins sold stock back to the syndicate; and a number of these transactions that we have gone into we are going to try to connect up here.

Senator WATSON. If it does not interrupt the thread of your examination at all, let me ask you: You say a man put up so much money?

Mr. GRAY. He deposited money with M. J. Meehan & Co. after he signed this syndicate agreement.

Senator WATSON. Did they buy stock off the market at all, at the market price, or how did they buy it?

Mr. GRAY. Do you mean the members of the pool themselves?

Senator WATSON. Yes.

Mr. GRAY. Within seven days somebody connected with M. J. Meehan & Co. issued orders to buy and to sell, or somebody having unlimited discretion in the matter, and this man O'Brien was a member of the firm and the specialist on the floor, and traded in a large amount of stock, I think 1,493,400 shares, in seven days. I want to take up these figures in an orderly way and give them to you. And the amount he paid for that stock in that time was \$141,424,328.52, all in the matter of seven days.

Senator WATSON. What was the effect on the price of the stock as listed during that week?

Mr. GRAY. I am going to show you that. But I want to get it in an orderly way.

Senator WATSON. Well, I do not want to interrupt you.

Mr. GRAY. I will show you this, and this paper I will put in the record now if you wish: This syndicate was formed on March 7, 1929, and it took them from March 7 to March 12. I suppose, to get all the signatures to the agreement, and to get what money they wanted in, and then they started to operate on March 12. On the 4th day of March the high in new Radio stock was 79. On the 5th day of March it was $77\frac{3}{4}$. On the 6th day of March it went to 74. I am going back quite a little ways to show you that I am not just taking any particular days. On the 7th of March it was $81\frac{3}{4}$. On the 8th of March it was 89. On the 9th of March it was 92. On the 10th of March, well, that was Sunday. On the 11th of March it was $90\frac{1}{8}$. Then these people stepped into the market the next morning, and on the 12th of March it was $91\frac{3}{4}$, and on the 13th of March it was 94, and on the 14th of March it was $100\frac{1}{4}$, and on the 15th of March it was 107, and on the 16th of March it was $109\frac{1}{4}$. The 17th was Sunday. On the 18th of March it was 101. Now, they had practically finished their operations right there. On the 19th of March it was $96\frac{1}{4}$. On the 20th of March it was 94. On the 21 of March it was $92\frac{1}{4}$. On the 22d of March it was $91\frac{3}{4}$. On the 23d of March it was $87\frac{1}{4}$. Does that paint the picture for you?

Senator WATSON. Yes.

Mr. GRAY. Now, inasmuch as Senator Watson has asked me about these things I want to complete the picture—and let me say now that we can verify all these figures, because they have been worked on by the accountants from the books of M. J. Meehan & Co., W. E. Hutton

& Co., and Block, Maloney & Co., so that they are absolutely accurate to the penny. On the 12th day of March through M. J. Meehan & Co. they purchased 392,600 shares, while on the same day—and the significance of this is to show the backward and forward trading—they sold 246,000 shares. On the 13th through M. J. Meehan & Co. they purchased 106,900 shares and sold 152,400 shares. On the 14th they purchased 69,000 shares and sold 142,800 shares. On the 15th they purchased 209,400 shares and sold 186,000 shares.

Senator COUZENS. I thought the syndicate closed on the 12th of March.

Mr. GRAY. No. It opened on the 12th of March. But the syndicate's actual operation until distribution was made, ran from the 7th of March to the 30th of March, while the actual trading was done from March 12 to March 19, although there are some items shown thereafter, yet the actual operations on the market quit on the 19th. The 16th of March was Saturday but their tradings are carried over to Monday. Then M. J. Meehan & Co. purchased 210,500 shares while their sales are 449,100 shares.

Senator BROOKHART. How many shares are there in the Radio Corporation of America?

Mr. GRAY. I can not answer that question definitely now, but will ask Mr. Bragg.

Mr. BRAGG. It is five or six million shares.

Mr. GRAY. Outstanding in common stock?

Mr. BRAGG. Yes, sir.

Mr. GRAY. The committee probably knows that the old stock, which was selling at a price around \$8 or \$10 a share at one time, was run up on the market, and there is an old Radio pool we have not yet had a chance to go into, because really work of this kind which has been done in so many days should be done in weeks. But that stock was run up to approximately \$500 a share. Then new stock was put on the market and each stockholder of the old stock was given five shares of new stock, five for one, which cut the price practically one to five. But the new stock was put on the market and traded in before it was actually issued, and the old stock, and I believe I am accurate in this as to the date, was taken off the market on the 21st day of March. But the new stock was traded in when issued, which was the stock that was traded in by this pool.

Senator FLETCHER. What was the par value of that stock?

Mr. GRAY. What is the par, Mr. Bragg?

Mr. BRAGG. I do not know that it has a par.

Mr. GRAY. It has no par, and evidently it had no price either.

Senator BROOKHART. What is it worth now?

Mr. GRAY. Mr. Watson, the accountant, advises me that it is on the market at about 20, is that right, Mr. Bragg?

Mr. BRAGG. No, it is \$4 a share now, I believe.

Mr. GRAY. That is the new stock?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And that is the price now?

Mr. BRAGG. Yes, sir.

Senator BROOKHART. Is it still listed?

Mr. BRAGG. Yes, sir.

Mr. GRAY. That is the same stock I have described here.

Senator FLETCHER. Do you give the prices that they paid when they bought, and the prices they got when they sold the stock?

Mr. GRAY. Yes, sir. We have the working sheets here, but I have not a summary of each transaction because it would mean a mass of paper and pencil. But I have here and will hand these sheets to the committee reporter, a summary of the purchases on each day, and the exact amount of money paid for that stock in total, from M. J. Meehan & Co., W. E. Hutton & Co., and Block-Maloney Co., carrying the total purchases out and showing what they purchased during this time, being 1,493,400 shares, at a cost of \$141,424,328.52.

Now, you will notice that during those days they must have purchased approximately—well, those dealings ran over a period of 10 days, which would mean that they would be dealing in approximately 150,000 shares a day as purchases. That is, I mean on the buying end.

Now, then, at that same time they of course, because they quit even, sold 1,493,400 shares, or the same number of shares, and they received for them \$146,987,527, and taking the other figure that I have here for the stock, it left a profit of \$5,563,198.48.

(The paper referred to by Mr. Gray in answer to Senator Watson's question was identified by being marked "Committee's Exhibit No. 3, May 19, 1932," and is as follows:)

COMMITTEE'S EXHIBIT NO. 3, MAY 10, 1932

We also direct your attention to the participants from the W. E. Hutton & Co. office, who failed also to make contribution in cash to the original fund.

As above stated this pool operated actively approximately one week, through which time there were purchased 1,493,400 shares at a cost of \$141,424,328.52, and the net profit accrued..... \$5,563,198.48

Distributed as follows:

Management fees, 10 per cent, per terms of agreement.....	\$547,119.80	
Other payments.....	92,000.00	
		639,119.80

Leaving a net actual distribution to the pool participants of record of..... 4,924,078.68

The analysis of payments to other than syndicate participants of record is as follows:

Eddie Dowling.....	\$19,000
Doctor Ash.....	10,000
Employee or attorney of Radio Co., I. E. Lambert.....	15,000
A. McConnachie.....	20,000
Meeham manager, F. J. Thiel.....	10,000
K. Woelfle.....	1,000
J. P. Tumulty.....	10,000
Meeham employee, A. Cotter.....	5,000
J. McNamee.....	2,000
	\$92,000

Mr. GRAY. We have not as yet an explanation of the purpose of these disbursements. This will undoubtedly have to be developed in the cross-examination of Mr. McConnachie. In any event, it is very desirable to find out who these people are and what their connection is. This is a typical syndicate operation.

¹ Paid at the direction of the pool manager, P. W. McConnachie.

It is to be borne in mind that certain of the partners of M. J. Meehan & Co. were specialists at the time of this pool. At the time of the commencement of the pool operations, namely, around March 8 to 12, 1929, the price of the when-issued new radio stock was relatively \$75 to \$80. At the time the pool closed its operations, which was about the 18th of March, 1929, the price had been run up to \$109 per share.

We are advised by Hutton & Co. that no market letters for this period are available. Inquiries to be made to M. J. Meehan & Co. to-morrow with respect to their market letters.

We direct your attention to the fact that in addition to his pool operating, there were trading accounts in radio operated by M. J. Meehan & Co. firm account, and operations of Mrs. M. J. Meehan, the ledger accounts which have not as yet been produced to us by M. J. Meehan & Co. Mrs. Meehan's account with Block-Maloney indicates—now, I am going to ask Mr. Bragg about this—

Senator GLASS (interposing). Right there let me ask you; do you call transactions of that kind investments?

Mr. GRAY. No; I would call it manipulation of the market, because here you have the picture of M. J. Meehan & Co. organizing this radio pool, and M. J. Meehan & Co. being specialists in radio and handling the stock on the floor. And I have shown you the range of prices down to the 12th of March, and I have shown you that it rose from a figure around 79 to 109 during the five days they operated, and I have shown you an immediate drop thereafter. And I will say that I am going to inquire about the expenditure of \$92,000 that appears on the books that went to nonparticipants and what for I do not know, and who some of the individuals are I do not know.

Senator GLASS. Wasn't it just as much gambling as in the case of a man who might sit at a card table with an extra card up his sleeve?

Mr. GRAY. Yes; and a little more so, because I think the fellow sitting at the card table had at least a chance to get a few of the cards, but they could not do it here.

Senator GLASS. All right.

Mr. GRAY. Mr. Bragg, the books of M. J. Meehan & Co. show the following payments made to people who were not participators in this pool, and I ask you whether or not you can tell me why these sums were paid and who some of the people were, Eddie Dowling, \$19,000.

Mr. BRAGG. He is an actor.

Mr. GRAY. Why was he paid that money, do you know?

Mr. BRAGG. No, sir.

Mr. GRAY. I say to the committee that these payments do not appear as a distribution to some of the other participants in the stock, because in some instances some of the participants would have a check drawn to themselves for a certain amount of what was due to them and a certain amount to other people, which we traced out; but others are payments made entirely apart from the participants in the pool.

Senator BROOKHART. Who would know why that was done?

Mr. GRAY. I am going to ask the other partners. But, Mr. Bragg, will you tell Senator Brookhart who would know about that?

Mr. BRAGG. Some one with M. J. Meehan & Co. should know.

Mr. GRAY. But you do not know?

Mr. BRAGG. No, sir; I do not.

Mr. GRAY. Now, next is Doctor Ash \$10,000. Who was he? Do you know?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you know why they paid him \$10,000?

Mr. BRAGG. No, sir.

Mr. GRAY. Who was I. E. Lambert? Isn't he an employee of the Radio Corporation of America?

Mr. BRAGG. I think there was an employee there, or a lawyer connected with that company by that name.

Mr. GRAY. He was either an employee or an attorney of the Radio Corporation of America?

Mr. BRAGG. I think so.

Mr. GRAY. Why was he paid \$15,000?

Mr. BRAGG. I do not know.

Mr. GRAY. It is suggested that he was general counsel for the Victor Radio Corporation. Do you know that to be so?

Mr. BRAGG. No, sir.

Mr. GRAY. Who was A. McConnachie?

Mr. BRAGG. He is a partner of M. J. Meehan & Co.

Mr. GRAY. Do you mean that A. McConnachie is a partner?

Mr. BRAGG. Well, I do not know as to the initials.

Mr. GRAY. James McConnachie is a partner, is he not?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And do you know A. McConnachie?

Mr. BRAGG. No, sir.

Mr. GRAY. Who was F. J. Thiel?

Mr. BRAGG. I think he was an employee of M. J. Meehan & Co.

Mr. GRAY. Do you know why he was paid \$10,000?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you know K. Woelfle, who he is?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you know why a person of that name, or a woman, was paid \$1,000?

Mr. BRAGG. No, sir.

Mr. GRAY. Who is J. F. Tumulty? He was formerly the President's secretary, was he not?

Mr. BRAGG. Yes, sir.

Senator GLASS. Oh, no; not J. F. Tumulty.

Mr. GRAY. I should have said J. P. Tumulty. That is what is shown here, that he received \$10,000. Then there is another name, A. Cotter. Is he another employee of M. J. Meehan & Co.?

Mr. BRAGG. I think so.

Mr. GRAY. Do you know why he was paid \$5,000?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you know J. McNamee?

Mr. BRAGG. No, sir.

Mr. GRAY. And you do not know why he was paid \$2,000?

Mr. BRAGG. No, sir.

Mr. GRAY. You managed this pool, didn't you?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And you were responsible to the people in the pool for the proper management of it and the distribution of the money?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Then, why didn't you know something about it?

Mr. BRAGG. These figures were the net figures sent over from M. J. Meehan & Co. and they were never questioned.

Mr. GRAY. Wait a minute. The members of the committee can not hear you. Did you say that it was the net figure that was sent over to or from M. J. Meehan & Co.?

Mr. BRAGG. Sent over from them.

Mr. GRAY. Do you mean that M. J. Meehan & Co. gave to you as the manager of the syndicate a report of its operations and of the net distribution?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Well, did you see this distribution of \$92,000 on that report?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you mean that they did not give it to you?

Mr. BRAGG. I do not think so. I do not remember it at all. I know that I did not see these names. I did not know anything about it. It was just the net figure I would see.

Mr. GRAY. Do you mean that you got the net figure?

Mr. BRAGG. We got the net figure of the profits on the pool in M. J. Meehan & Co. We put them together with the profits in our own office and that was the total profit, and the distribution would be prorated on that. This money I did not know about.

Mr. GRAY. Do you mean that it did not show on the net figures of M. J. Meehan & Co., that they furnished to you as the manager of the syndicate?

Mr. BRAGG. No, sir; I do not think so.

Senator FLETCHER. Do you know whether they had any special contract with any of these people?

Mr. BRAGG. No, sir; if so, I didn't know it.

Senator BROOKHART. Then, this job of manager was a kind of nominal job.

Mr. BRAGG. Somewhat.

Senator BROOKHART. And the specialist was the real manager of it?

Mr. GRAY. Is that so, Mr. Bragg?

Mr. BRAGG. Well, I did not actually give specific orders to sell so many shares of stock. I directed the general policy of it.

Mr. GRAY. Who did give those orders?

Mr. BRAGG. I had charge of the general policy of it. If we had a little too much stock there I would tell them to sell stock.

Mr. GRAY. Well, you did not have any stock at the beginning?

Mr. BRAGG. No, sir.

Mr. GRAY. This pool was organized to go out and buy stock, and to manipulate it, and to get money out of it.

Mr. BRAGG. To go out and buy stock in the open market, and to sell it at a higher price to make a profit.

Mr. GRAY. Well, buying and selling on the same day is a wash-sale business, isn't it?

Mr. BRAGG. No, sir.

Mr. GRAY. It is not a wash sale when you get one fellow to do one thing and another fellow to do another thing, but when one fellow does both it is a wash sale?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And if the same manager directs the two fellows in the buying and selling, then it is not a wash sale?

Mr. BRAGG. No, sir.

Senator GLASS. Well, that is like agreeing not to raise an objection on the Senate floor, and then going and getting somebody else to raise the objection.

Senator BROOKHART. Just about the same.

Senator COUZENS. Will you describe what the manager's duties are in a case like this? I am not quite certain as to what a manager does. I understand that you were the manager of this syndicate, and I should like to understand your duties.

Mr. BRAGG. Well, the manager of a syndicate would organize it, and get subscriptions to the syndicate, and decide on the stock they are going to buy, and about how much, and decide when to sell it, either for a profit or a loss; and see that it was properly capitalized, that they had enough money to run it.

Senator COUZENS. And you could do that just as well from Florida as from New York or any other place?

Mr. BRAGG. Well, I do not know about that, not quite as well; no I think it could be done better in New York than in Florida.

Senator BROOKHART. In fact, you turned the management of this syndicate over to M. J. Meehan & Co., your specialists, and paid no attention to it.

Mr. BRAGG. I would talk with them at night. I knew the position then and I would tell them if they had too much stock. I would talk with Smith and tell him: You have got too much stock, and you ought to sell it.

Senator GOLDSBOROUGH. As a matter of fact, you did not manage it at all, did you?

Mr. BRAGG. Yes; I was the manager of the syndicate.

Senator GOLDSBOROUGH. And yet you were in Florida?

Mr. BRAGG. Yes, sir.

Mr. GRAY. That is not the question, but the question——

Senator TOWNSEND (interposing). You were manager in name only?

Mr. BRAGG. I did not do the actual buying and selling.

Senator GOLDSBOROUGH. Then you did not know when stock was purchased or sold if you were in Florida?

Mr. BRAGG. Not during the day, no, sir.

Senator BROOKHART. Is that kind of operation in accordance with the rules and regulations of the New York Stock Exchange?

Mr. BRAGG. Yes, sir; I think so.

Senator BROOKHART. They permit this cross-buying and selling through the same trader?

Mr. BRAGG. They do not permit wash sales. And I do not think there were any wash sales in this syndicate. This was trading, which they had a perfect right to do.

Senator FLETCHER. What was your compensation as manager of the syndicate? M. J. Meehan & Co. got 10 per cent, as I understand the situation, and now what did you get as manager of the syndicate?

Mr. BRAGG. I think they got 5 per cent.

Senator FLETCHER. And 5 per cent of that 10 per cent was your part?

Mr. BRAGG. I think it was all 5. Let me look at the agreement.

Mr. GRAY. The agreement shows, I think, 10 per cent.

Senator GOLDSBOROUGH. Yes, it is 10 per cent.

Mr. BRAGG. I think it is 5 per cent.

Mr. GRAY. The agreement is that:

The managers are to receive 10 per cent of the net profits of the syndicate as and for their services to be rendered herein, said payment to be made prior to the distribution of the profits of said syndicate among the participants.

There is also the provision in the first part of the agreement:

We have been requested to form and are forming a syndicate, of which we are to be the managers, to trade in the common stock of the Radio Corporation of America, and no other securities.

Then it goes on to say:

The commitment of the syndicate shall not at any time exceed one million (1,000,000) shares, either long or short.

Then it says further:

Subject only to the limitations aforesaid, the managers, in a trading account on the books of Messrs. M. J. Meehan & Co., who are hereby appointed agents for the managers, entitled "Radio Corporation of America Common Stock Syndicate," shall have full power and authority, hereby granted.

But in this agreement there is nothing to indicate as to who are to be the managers. I beg pardon. I see it is signed "Bradford Ellsworth and Thomas E. Bragg, syndicate managers." And then it says that the managers are to receive 10 per cent. Did it mean that M. J. Meehan & Co. were to receive 10 per cent?

Mr. BRAGG. I assume it did.

Mr. GRAY. And they paid 5 per cent of it to you and 5 per cent to Bradford Ellsworth.

Mr. BRAGG. No. Ellsworth and I got 5 per cent together.

Mr. GRAY. Yes; and M. J. Meehan & Co. got the other 5 per cent. Now, in addition to that M. J. Meehan & Co. for conducting their part of the pool got their usual commission?

Mr. BRAGG. Yes, sir.

Mr. GRAY. That is correct, isn't it?

Mr. BRAGG. Yes, sir. Let me see that agreement again. I thought it was 5 per cent.

Senator BROOKHART. You were probably confused by the fact that you got 5 per cent and the broker got the other 5 per cent.

Mr. GRAY. And the management fee was \$547,119.80. You won't dispute that figure, will you?

Mr. BRAGG. No, sir.

Senator CAREY. Do the rules of the New York Stock Exchange permit a broker to take a commission as well as their fee?

Mr. BRAGG. Yes, sir.

Senator CAREY. Then they make a commission besides the regular brokerage fee?

Mr. BRAGG. They have minimum brokerage fees. I think that is the only limitation. They can charge more if they want to.

Senator CAREY. They can charge a commission above that?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And the commissions in this case to M. J. Meehan & Co. were \$583,000 besides, weren't they?

Mr. BRAGG. I would think so, but I do not know.

Mr. GRAY. And that does not include the interest charges that M. J. Meehan & Co. may make for advancing whatever amounts of money are necessary over and above the contributions of the participants. That is correct, isn't it?

Mr. BRAGG. That is correct. M. J. Meehan & Co. would have to borrow money and also to pay for it.

Mr. GRAY. I understand, and there would be certain interest charges and M. J. Meehan & Co. would assume the net interest position, but what they would charge the syndicate would be something above that?

Mr. BRAGG. Yes, sir.

Senator WALCOTT. Do you know what people in the syndicate were carried, and in what amounts, Mr. Gray?

Mr. GRAY. The record I read showed the amount of money each individual put up, and those individuals who put up no money at all.

Senator WALCOTT. But where they were responsible for the cash they would be called upon to put up a certain amount in cash and then the brokerage firm would carry the balance. You do not know what the borrowing amounts were, do you?

Mr. GRAY. No. But we know the amounts that I have given in the statement handed to the committee reporter, that they were the amounts actually put up by those people. The books show that that money was actually put up.

Senator WALCOTT. And if there was any borrowing it was under some other arrangement?

Mr. GRAY. Yes. M. J. Meehan & Co. did the same as any other brokerage house, I assume.

Senator COUZENS. When you read off that no money was put up, did that mean that they put up no money or that they borrowed the amounts from the broker?

Mr. GRAY. In the checking of the accounts we have not been able to get any separate interest charges, carrying charges, that M. J. Meehan & Co. may have provided as against those accounts. We ascertained in those instances in making the distribution where there was a calculation of interest charges as against those people, that it would be greater on account of their noncontribution than against those where there was a contribution. I mean we would suppose it is so but do not know as yet.

Senator COUZENS. You do not wish us to understand that in the case of those names that you read off as putting up nothing, that they did not obligate themselves to put up something?

Mr. GRAY. No. They obligated themselves and were participants, having signed the syndicate agreement in which they obligated themselves to take a certain participation, and in event, through mismanagement or otherwise, this pool had operated at a loss, they would be liable for their share of the loss. They were not gratuitous participants.

Senator COUZENS. Some of the members of the committee got the impression that they were gratuitous participants.

Mr. GRAY. No. Then there was an additional loss of \$92,000 for presents made for some reason or other. Those people did not appear in the participation at all, and there is no reason shown on the books why they should have been paid a dollar in money.

Now, as to J. E. Higgins, who was a member of this pool. Who is he?

Mr. BRAGG. He is a trader.

Mr. GRAY. He is a trader the same as yourself?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Let me ask you this: A number of people who were in this pool and following the pool itself, traded on their own account, did they not?

Mr. BRAGG. Very likely.

Mr. GRAY. Keeping in touch, of course, with what the pool was doing?

Mr. BRAGG. Yes.

Mr. GRAY. The pool in certain instances made trades with members of the syndicate. Do you know why that would be done?

Mr. BRAGG. No; unless a member of the syndicate might buy or sell stock in the open market, might buy and sell it from the syndicate.

Mr. GRAY. These transactions appear on M. J. Meehan's & Co.'s books, and I want to ask you if you can explain them: On March 15, 1929, the Radio Syndicate sold 25,000 shares of Radio at 101, and on March 15, 1929, J. E. Higgins, a member of the syndicate, bought 25,000 shares at 101. Can you explain that transaction? Was it a matter of just putting a trade out on the market for the purpose of continuing the activity in the stock?

Mr. BRAGG. I could not answer that. Higgins is a very big trader, or was at that time.

Mr. GRAY. Do you know where he is now?

Mr. BRAGG. No, sir; I do not.

Mr. GRAY. We have not been able to find him, I will say to the committee. And we have not been able to find Mr. Ellsworth, although I did have someone talk to him in Canada and try to get him down here, but was unable to do so.

Now, Mr. Bragg, on March 18, 1929, according to M. J. Meehan & Co.'s books, radio stock was sold to the extent of 10,000 shares at 107½, and J. E. Higgins bought 10,000 shares at 107½. Can you explain that transaction?

Mr. BRAGG. No. Was J. E. Higgins a member of that syndicate, or was it Mrs. Higgins?

Mr. GRAY. No; it was J. E. Higgins, I am sure of that, but you are entitled to your view of it.

Mr. GRAY. J. E. Higgins was a member of the syndicate with a participation of 25,000 shares, and put up a half a million dollars.

The CHAIRMAN. You know those figures are accurate, do you?

Mr. GRAY. They are absolutely accurate, Senator.

The CHAIRMAN. You can not explain that transaction?

Mr. BRAGG. No, sir.

Mr. GRAY. On March 19 where Radio Syndicate bought 5,000 shares at 105 and J. E. Higgins sold 5,000 shares at 105. Now maybe you can explain some of these others. The books of Meehan show this: That on March 12, 1929, Meehan & Co. sold 1,000 shares of Radio at 92⅞ from the syndicate account to Hutton & Co., who bought the same for the account of Mrs. Vera Bragg, your wife. Was that transaction a transaction just to keep alive the activity of the stock?

Mr. BRAGG. No.

Mr. GRAY. Well, was your wife buying stock from the syndicate?

Mr. BRAGG. I don't remember that particular transaction. It might have been so that the stock would not meet there. So that there would not be a wash sale.

Mr. GRAY. In other words, so that you could pull through a wash sale but that it would not have the appearance of it?

Mr. BRAGG. No; that in this heavy trading so that there would not be any wash sale. That might be.

Mr. GRAY. Now who handled your wife's account and gave orders as to the buying and selling while you were in Florida?

Mr. BRAGG. Well, that trade might have been put through by a clerk in the office.

Mr. GRAY. Well, who gave that clerk in the office instructions?

Mr. BRAGG. I don't know who gave those instructions.

Mr. GRAY. Well, who would? Who had the authority to?

Mr. BRAGG. A thousand shares—any clerk in the office there could have done that.

Mr. GRAY. A thousand shares is just so small that any clerk in the office of W. E. Hutton & Co. could have given orders to buy it for your wife?

Mr. BRAGG. For her account; yes.

Mr. GRAY. For her account. Now your wife was in the syndicate, and the syndicate was buying and selling at a profit. Why would she buy it from the syndicate?

Mr. BRAGG. I don't know just the explanations for that particular thing. It could have been, as I say, so that in this heavy trading here, all the trades made, so it would not be a wash sale and put it in that account.

Mr. GRAY. I am afraid you will have to be a little more clarifying in your explanations. You say in order that there would not be any wash sale, so that it would be put in that account. That doesn't mean anything. M. J. Meehan & Co., the syndicate managers, the actual managers, sold stock to your wife out of the syndicate stock, bought by Hutton & Co., the brokers who were also handling the stock for your wife in that account. Now what was that transaction? Your wife never gave any orders at all, did she?

Mr. BRAGG. No.

Mr. GRAY. She doesn't know what it is all about, does she, except as she has learned it from you over the dinner table?

Mr. BRAGG. No; I didn't talk about it.

Mr. GRAY. What?

Mr. BRAGG. No; I didn't talk about it.

Mr. GRAY. No; I guess you didn't. Then, she knows less about it. Now, then, who in Hutton & Co. or Meehan—let us take the Hutton end of it; let us take the buying end of it. Who would give orders to buy a thousand shares of stock for Mrs. Bragg?

Mr. BRAGG. They might have a thousand shares in the air and say, "Can you put this some place?" And the clerk says, "Yes."

Mr. GRAY. What do you mean by "a thousand shares in the air"?

Mr. BRAGG. A thousand shares that they bought that somebody don't own, or a thousand shares sold—I don't know which that was, and they would say, "Have you got some place to put it?" The clerk says "Yes." And put it in my wife's name.

Mr. GRAY. Yes. In other words, they didn't know what to do with the thousand shares out of the large quantity they bought that day so they put it in Mrs. Bragg's account?

Mr. BRAGG. That could be one reason.

Mr. GRAY. Would she have to account to the syndicate for it in the final analysis of the thing?

Mr. BRAGG. No.

Mr. GRAY. Would it be hers?

Mr. BRAGG. Yes.

Mr. GRAY. Would she pay for it?

Mr. BRAGG. Yes.

Mr. GRAY. Who would have the right to say that they would saddle Mrs. Bragg with 1,000 shares of that stock at that price without you or her finding out if she wanted it?

Mr. BRAGG. Well, any of the clerks in the office could have done that. My office.

Mr. GRAY. Who gives them that authority? You?

Mr. BRAGG. Yes; they had that authority, the clerks in my office.

Mr. GRAY. In other words, there wasn't much chance of losing in Radio stock while the pool was operating, so you let them do what they wanted?

Mr. BRAGG. Well, there is a chance of losing money at any time when you trade in anything. There is a chance of losing money.

Mr. GRAY. Well, I think the committee probably understands that situation.

Senator FLETCHER. Did you ever personally acquaint yourself with the assets and liabilities of this corporation? What property they had? What their responsibility really was? What their business was?

Mr. BRAGG. I was quite familiar with the company. They didn't have much assets or liabilities. They had mostly an idea.

Senator FLETCHER. Just an idea. No assets and liabilities.

The CHAIRMAN. But lots of capital stock.

Senator COUZENS. Well, as a matter of fact, Mr. Bragg, weren't these shares put in your wife's name for the purpose of avoiding any wash sale?

Mr. BRAGG. It might be that; yes.

Mr. GRAY. In other words, they do not represent a real transaction?

Mr. BRAGG. Oh, yes; a real transaction. Goes into the account and is paid for like any other transaction.

Senator COUZENS. But it was an avoidance of showing up a wash sale. The witness admits that.

Mr. GRAY. I think so. Now, by the way, you had in the Huttons what they call a Z. Q. blotter. Can you tell the committee what that was?

Mr. BRAGG. All my accounts were practically all discretionary accounts, and I could buy 5,000 shares of stock, and different accounts, if they wanted part of it they could have it, and I would put it in there.

Mr. GRAY. Keep your voice up.

Mr. BRAGG. I would put in one a thousand, one 500, another a couple of thousand.

Mr. GRAY. You do not answer me about what the Z. Q. blotter is.

Mr. BRAGG. Well, as I said in the beginning, if I picked up 5,000 shares or 10,000 shares of stock during the day I just held it Z. Q., and then these discretionary accounts would either take the stock during the day—it would not all be bought at once; accumulated during the day, and then 500 in one account, a thousand in another, and a couple of thousand in another.

Mr. GRAY. Let me state it another way. In other words, the Z. Q. blotter was an account into which all of your transactions, such as the ones you have indicated, these discretionary transactions were first put?

Mr. BRAGG. Yes.

Mr. GRAY. And if you gave an order to buy 25,000 shares of stock during the day, a certain stock, or even different stocks, and you had not definitely allocated that, it would come in that blotter?

Mr. BRAGG. Yes.

Mr. GRAY. At the end of the day under the instructions of either yourself or one of these discretionary clerks who knew all about your affairs, it would be allocated to different accounts that you were interested in?

Mr. BRAGG. Yes.

Mr. GRAY. Is that correct?

Mr. BRAGG. Yes.

Senator COUZENS. And those different accounts did not involve different people, but only your own self, is that it?

Mr. BRAGG. No; different people.

Senator COUZENS. I do not think you got it quite across. He did not allot these to his own account, but he distributed them among persons whom he had discretion to distribute them among.

Mr. GRAY. Yes. In other words, some of them may have gone in your own account, some in your wife's, some in Gertrude Smith's, some in Ben Smith's, some in the Cliffwood Corporation, some in Lima Locomotive, as it might happen, or any other particular accounts in which you and others associated with you were interested, but all in accounts in which you had some interest, isn't that correct?

Mr. BRAGG. Oh, no.

Mr. GRAY. Now, let us get it clear so as to be sure about it. You mean some of it may have been allocated to some of your friends or others in which accounts you would have absolutely no interest, at the end of the day?

Mr. BRAGG. Yes; that is right.

Senator COUZENS. Those are the discretionary accounts he is talking about.

Mr. GRAY. Those were not tradings on your part as a broker? They were all tradings on your part as a trader? They went into this Z. Q. blotter and were eventually allocated by you either to some of your own accounts, or some of these other accounts, or to some other account?

Mr. BRAGG. Yes.

Mr. GRAY. I mean you did not act as a commission broker in making the trade? Hutton & Co. did?

Mr. BRAGG. Yes; myself as a partner there.

Mr. GRAY. Yourself as a partner there?

Mr. BRAGG. I didn't ask them to buy the stock.

Mr. GRAY. Well, your position was really a buyer or seller—the buyer in this case, was it not?

Mr. BRAGG. The buyer or seller.

Mr. GRAY. Each side of the market would have gone into this blotter?

Mr. BRAGG. Yes.

Mr. GRAY. On March the 12th, according to Meehan's books—and this is all 1929—Meehan & Co. sold 1,300 shares of Radio at 91¾ to Hutton & Co., 1,000 of which were purchased for the account of the American Brush Co., another syndicate member. Was that transaction the same kind of a transaction as that sale to your wife?

Mr. BRAGG. No, sir; I don't think so.

Mr. GRAY. What would you think it was?

Mr. BRAGG. Just a purchase.

Mr. GRAY. In other words you think that the American Brush Co., a member of the syndicate, would be buying from the syndicate a thousand shares of stock?

Mr. BRAGG. Yes.

Mr. GRAY. Why.

Mr. BRAGG. Well, they bought a thousand shares of stock and they could very easily buy it from the syndicate if the syndicate was the seller.

Mr. GRAY. You mean for the purpose of trading in it individually in addition to the syndicate's trading?

Mr. BRAGG. Yes, sir.

Mr. GRAY. On March the 14th Meehan & Co. sold 5,000 shares at 93½ to Hutton & Co. Two thousand were purchased for your wife's account. Two thousand five hundred for the account of Gertrude D. Smith. Both participants. Were they the same as the other transaction where Meehan & Co. sold to Hutton & Co. on account of your wife?

Mr. BRAGG. I would think so.

Mr. GRAY. On March the 15th Meehan & Co. sold 5,000 shares of Radio at 100¾ of the syndicate account to Hutton & Co., who purchased the same for an account known as 125, Bradford Ellsworth, one of the managers of the syndicate. Was that also used as a cover-up transaction?

Mr. BRAGG. I don't know. He could have bought it himself.

Mr. GRAY. Well, he could have, but do you know anything about that transaction? Whether he did or not?

Mr. BRAGG. No; I do not.

Mr. GRAY. Have you anything to say about the manager of the syndicate selling stock to himself?

Mr. BRAGG. Well, as a participant of the syndicate he could buy it or sell it.

Mr. GRAY. So the managers have the right to control the situation to their own advantage if they so desire? In other words, nobody questions the ethics of that?

Mr. BRAGG. Well, I don't think anybody would question it. If the manager wanted to buy stock he could buy it from the syndicate, or the syndicate as a seller. I don't think there is anything particularly unethical about that.

Mr. GRAY. All right. On March 15 Meehan & Co. sold 800 shares to Hutton & Co. who purchased it from the syndicate account. What can you say about that? In other words, Meehan & Co. sold syndicate stock to Hutton. Meehan sold it as syndicate stock; Hutton bought it as syndicate stock.

Mr. BRAGG. That is an error.

Mr. GRAY. You mean they made a mistake?

Mr. BRAGG. Yes.

Mr. GRAY. It should not have been done that way?

Mr. BRAGG. No, sir.

Mr. GRAY. Well, that is a pure wash sale, isn't it?

Mr. BRAGG. Well, I am not sure just exactly, but that is an error, and that could easily happen in this tremendous volume.

Mr. GRAY. You mean that Meehan & Co. selling a tremendous volume and Hutton & Co. both buying and selling a tremendous volume, that it might have been that Hutton, through the floor broker, bought the stock that Meehan was offering for sale?

Mr. BRAGG. Yes.

Mr. GRAY. Well then, Hutton & Co. and Meehan & Co. were not cooperating very closely, were they?

Mr. BRAGG. Well yes, because in that trade with that big volume there could be a hundred brokers there in the small space at the post and they could be trading back and forth with each other and not know each other.

Mr. GRAY. So that there might be many transactions, where in keeping up an active market, Hutton & Co. might be buying and Meehan selling, or Meehan buying and Hutton selling?

Mr. BRAGG. Yes, but not at the same price.

Mr. GRAY. Well, this happens to be a transaction that passed right through?

Mr. BRAGG. Yes, that is an error.

Senator BROOKHART. If they were required to give the certificate numbers of the stock that situation you have just described could not happen, could it?

Mr. BRAGG. Well, this is all trading on the floor, you see, by maybe fifty or a hundred brokers.

Senator BROOKHART. Yes, but if they would have to identify the stock certificates by numbers they would not get in that sort of a mess?

Mr. BRAGG. It would be pretty hard to do business on the floor of the stock exchange. It would stop all the trading. A lot of the trading.

Senator COUZENS. Who was the specialist in this case, Mr. Gray, do you know?

Mr. GRAY. The specialist was Meehan & Co.

Senator COUZENS. But who was the individual?

Mr. GRAY. O'Brien, one of the partners. I have him here.

Senator COUZENS. Who was on the floor as a specialist?

Mr. GRAY. I am going to try to find that out, Senator. I thought this made a pretty picture of the pool where the public didn't have much to say about it.

Senator FLETCHER. The error consisted in the fact that nobody made any profit, is that the idea?

Mr. BRAGG. No; that the trades met. That was the error.

Senator FLETCHER. In other words, just one wiped off the other? There was no profit made by one or the other?

Mr. BRAGG. There was a loss. The commissions they had to pay.

Mr. GRAY. The commissions that they had to pay both houses. They were the only people that made a profit out of it.

Senator FLETCHER. The syndicate paid that?

Mr. BRAGG. Yes.

Mr. GRAY. Another thing is the item of 200 shares on the same date, sold by Meehan and bought by Hutton, both acting for the syndicate account. Your answer would be the same, I suppose?

Mr. BRAGG. Yes.

Mr. GRAY. Now, on March 18 Meehan & Co. sold 5,000 shares at 107½ to Hutton & Co., who purchased for their account No. 6000, the American International Corporation account. Have you any particular knowledge of that sale?

Mr. BRAGG. No.

Mr. GRAY. The American International was not a member of the syndicate or pool?

Mr. BRAGG. No, sir.

Mr. GRAY. Now then, on March 15 your wife and Gertrude Smith appear again. Hutton & Co. sold to Meehan & Co. 10,000 shares at 95½ for the account of Hutton's customers, Vera Bragg and Gertrude Smith. Now, is that the stock that Vera Bragg and Gertrude Smith bought from Meehan back on the 14th?

Mr. BRAGG. I don't think so. I don't know whether it was.

Mr. GRAY. Yes. So that when Meehan & Co. sold to Hutton & Co. for Vera Bragg and Gertrude Smith certain stock around the 14th of March, 1929—

Senator FLETCHER. At what price?

Mr. GRAY. I will give you the price. On March the 14th, 1929, M. J. Meehan & Co. sold 5,000 shares at 93½ to Hutton & Co., 2,000 of which were purchased for the account of Vera Bragg and 2,500 for the account of Gertrude D. Smith, both syndicate participants. On March 12, Meehan & Co. sold 1,000 shares at 92⅞ from the Radio Syndicate account to Hutton & Co., who bought for the account of Vera Bragg, a syndicate participant. Now, that is 1,000 at 92⅞ and 4,500 at 93½. Now, those are the only items that we traced on that side.

But we have an item here on March the 15th, 1929, where Hutton & Co. sold back to Meehan & Co. 10,000 shares at 95½, of which Vera Bragg had 2,000 and of which Gertrude Smith had 5,000. So we have members of the syndicate either dealing with the syndicate, or we have, as has been indicated by Mr. Bragg, transactions that were done so that they would not appear as wash sales.

Mr. Bragg, during the week that this pool was running, there was a great deal of publicity and a boosting of radio. Did you as the manager of the syndicate have anything to do with that?

Mr. BRAGG. No.

Mr. GRAY. Do you know anything about it at all?

Mr. BRAGG. No.

Mr. GRAY. After asking some of the other witnesses about this, I will present this abstract as to these publications for the record later. I do not see any use of examining Mr. Bragg about them.

Mr. Bragg, I am going away from Radio and want to ask you a general question about the market. What are stop orders? Not stop loss orders, but stop orders.

Mr. BRAGG. Well, when a number of orders accumulate on a book at a certain price, say the stock at 20 or 21, and a trader can stop some of that stock—what they call stopping the stock. That is, if it sells at 21 he can sell 1,000. It may be selling above 21. He wants to sell it.

Mr. GRAY. Now I want you to put that in quite plain language, won't you? Assume that we do not know anything about the stock market. Will you start to tell us about stock being at 20 or 21, and if he wants to sell it he can sell 1,000 shares at 21? Explain what the order is and how it operates.

Mr. BRAGG. Say a stock is selling at \$21 in the market.

Mr. GRAY. That is the present-minute market price?

Mr. BRAGG. Yes.

Mr. GRAY. All right.

Mr. BRAGG. And say at \$20 a share there are 10,000 shares wanted there on the book.

Mr. GRAY. That appears on the specialist's book, you mean?

Mr. BRAGG. Yes, sir.

Mr. GRAY. In other words, the specialist has on his book an order to buy 10,000 shares at \$20 a share, which is a point below the market?

Mr. BRAGG. Yes.

Mr. GRAY. All right, go ahead.

Mr. BRAGG. Well, a trader can come along and stop 1,000 of that so that when it gets to 20, why he will sell 1,000 of the 10,000.

Mr. GRAY. Now he is not the man who wants to buy?

Mr. BRAGG. No, sir.

Mr. GRAY. But you mean he puts in an order with the specialist?

Mr. BRAGG. Yes.

Mr. GRAY. To sell 1,000 shares of that stock?

Mr. BRAGG. At 20.

Mr. GRAY. At 20?

Mr. BRAGG. When it is selling at 21.

Mr. GRAY. Yes; it is selling at 21.

Mr. BRAGG. Yes.

Mr. GRAY. But he puts in an order to sell 1,000 at 20?

Mr. BRAGG. Yes.

Mr. GRAY. Then he can if he has got a market for it sell it at 21 right there?

Mr. BRAGG. Yes.

Mr. GRAY. Now what is his purpose? What does he accomplish?

Mr. BRAGG. Well, if the stock looked like a down stock and there isn't much wanted here at 21 or down to 20 he can only sell two or three hundred shares down to 20, there wouldn't be much of a trade there. But it got to 20, and this stock went through this price here of 20—on 10,000 shares if it was a down stock it might go down two or three dollars.

Senator BROOKHART. How does he know that it was a down stock?

Mr. BRAGG. Just by the feel of the stock or watching it, that is all. As a trader. Now the same thing would work on the other side.

Mr. GRAY. I know, but what is his purpose then? That is a short sale, of course, at 20 that he already puts in?

Mr. BRAGG. Yes.

Mr. GRAY. Now what does he anticipate is going to happen?

Mr. BRAGG. Well, if this 10,000 is filled during the day or during the next day why the stock would probably go down. If it happened to be a down stock.

Mr. GRAY. In other words, he knows how much stock there is on the specialist's book, how much there is in the way of orders to buy at a price below the market? He puts an order in to sell at that certain price so that when it reaches it, he anticipates on account of the thinness of the market as the usual thing that that stock is going to go down below that price and he is going to be given an opportunity within a reasonable time to cover?

Mr. BRAGG. That is what he feels and hopes.

Mr. GRAY. Yes. Now, the only people that can do that are the specialists or the people who act as floor traders, who are in touch with the specialists and who have the knowledge of what is on the specialist's book, isn't that so?

Mr. BRAGG. No; any trader can give that order.

Mr. GRAY. If he gets the information from the specialist's book? Without that information he can not do that, can he?

Mr. BRAGG. Yes; he could do it. If the stock was selling at, say \$100, and that is a round price for it, he might feel that if it broke 100 it might go to 90.

Mr. GRAY. Yes.

Senator COUZENS. In other words, he would use his judgment about using the knowledge he has of what is on the specialist's book?

Mr. BRAGG. Yes; he might do it.

Mr. GRAY. Well, that is a frequent practice on the floor of the exchange, isn't it?

Mr. BRAGG. Well, I couldn't say that. I never was on the floor of the exchange.

The CHAIRMAN. Isn't that inside information as against the public?

Mr. BRAGG. Pardon me, sir?

The CHAIRMAN. Wouldn't that be inside knowledge or inside information that could be used against the public who were buying?

Mr. BRAGG. Well, it would be knowledge that a trader would be more familiar with than the general public, I would think; yes. I don't know as it would be inside information.

Mr. GRAY. But it is if he has the knowledge that appears on the specialist's book?

Mr. BRAGG. If he knows what is on the specialist's book.

Mr. GRAY. Well, it is a fact that he does know it in all of these trades, and without that knowledge he would not act, would he? In other words, tell me whether it is not a fact that that is one of the usual practices, to get that information and sell in that way?

Mr. BRAGG. Oh, I would not say it was the usual practice. I suppose it is done.

Mr. GRAY. Frequently?

Mr. BRAGG. Well, I couldn't say how frequently.

Senator COUZENS. The witness says he does not operate on the floor himself.

MR. GRAY. I know that. The witness does not operate on the floor himself. Now, then, how do you know about it?

MR. BRAGG. Well, I know that you can—I could give an order to stop a thousand shares at a price.

MR. GRAY. Well, you know that it is done?

MR. BRAGG. Yes.

MR. GRAY. You have done it?

MR. BRAGG. I have done it; yes.

SENATOR GLASS. Well, did you have knowledge of what was on the specialist's book when you did it?

MR. BRAGG. No.

SENATOR COUZENS. I do not think it is conclusive that a man who is not on the floor has to have the information that is on the specialist's book before he can operate.

MR. GRAY. No; it is true that it is not conclusive, but I will ask Mr. Bragg one question. You said, Mr. Bragg, that one could do it without the knowledge of the specialist's book, and you illustrated your answer by saying that, if the stock was 100 and a man thought it was going to 90, he might put an order in to sell it at 98, didn't you?

MR. BRAGG. No; he would sell it at 100, or if it breaks 100.

MR. GRAY. Yes. Well, that is not a stop order?

MR. BRAGG. Yes; a stop at 100. Sell it at 100.

MR. GRAY. Oh, you mean if it does not reach 100?

MR. BRAGG. Yes.

MR. GRAY. Yes. In other words, he is putting in an order to sell it below the market?

MR. BRAGG. Yes; when it reaches there.

MR. GRAY. You said that could be done.

MR. BRAGG. When it reaches there.

MR. GRAY. When it reaches there?

MR. BRAGG. Yes.

MR. GRAY. But, do you mean to say that it is done without some knowledge of the conditions as they appear on the specialist's book?

MR. BRAGG. Will you please ask me that question again?

MR. GRAY. You said that a man might put in an order to sell at 100, to use your figure, when the stock reached there.

MR. BRAGG. Yes.

MR. GRAY. When the stock was then being quoted on the market or being sold on the market at slightly above 100?

MR. BRAGG. Yes.

MR. GRAY. And you said that would be a stop order?

MR. BRAGG. Yes.

MR. GRAY. I am asking you whether or not a man would put in such an order—you said he could, and of course he could—but whether a good trader would put in such an order without a knowledge of the specialist's book?

MR. BRAGG. Yes; I should think so.

MR. GRAY. He would. Why wouldn't he put it in to sell it at just the then market instead of putting it in at a figure below?

MR. BRAGG. Well, he might feel or think that if it broke 100 that it would go say 10 points lower. And it is the same as on the reverse side, the opposite side of the market.

Mr. GRAY. Yes; of course what can be done on one side can be done on the other. That is all I want to ask Mr. Bragg.

Senator COUZENS. Let your next witness come forward.

Mr. GRAY. I want to put Mr. McConnachie on. I want to clear up this one transaction. You had better remain, Mr. Bragg.

Senator COUZENS. Are you now going to continue on this same matter, or are you going on to some other thing?

Mr. GRAY. No; I am going to continue on the Radio matter.

Senator COUZENS. I was hoping you would conclude the whole Radio transaction before you would go on with the others.

Mr. GRAY. That is what I am doing.

**TESTIMONY OF JAMES F. McCONNACHIE, MEMBER OF THE FIRM
OF M. J. MEEHAN & CO., NEW YORK CITY**

(The witness was duly sworn by the chairman of the committee.)

Mr. GRAY. Mr. McConnachie, you are a member of the firm of M. J. Meehan & Co.?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. You have been so for how long?

Mr. McCONNACHIE. For almost two years.

Mr. GRAY. For almost two years. And you were not in the firm of M. J. Meehan & Co. at the time that this pool took place?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Do you know anything about its transactions?

Mr. McCONNACHIE. No, sir.

Senator COUZENS. What were you engaged in before you were with M. J. Meehan & Co.?

Mr. McCONNACHIE. Supervising agent of the United States Treasury Department.

Mr. GRAY. How long were you there?

Mr. McCONNACHIE. Twenty-three years.

Mr. GRAY. How did you come to go with M. J. Meehan & Co.?

Mr. McCONNACHIE. We had been friends for a great many years. He had urged me for many years to become his partner, but I was very contented in my position. I felt that I was happier there than I would be in finance, and I wasn't particularly interested in making a lot of money, having a private income which satisfied me, so for that reason I did not respond until about two years ago.

Senator COUZENS. When you were with the United States Treasury, what salary did you get?

Mr. McCONNACHIE. \$6,000.

Senator COUZENS. And you say you were there 23 years?

Mr. McCONNACHIE. Yes.

Senator COUZENS. What capacity did you start in?

Mr. McCONNACHIE. As special agent.

Senator COUZENS. Where?

Mr. McCONNACHIE. At the port of New York, appointed by Secretary of the Treasury Cortelyou in the Roosevelt administration.

Mr. GRAY. During the time that the accountants have been working in the offices of M. J. Meehan & Co. with respect to this Radio pool, your attention was called to certain of these matters which you heard me ask Mr. Bragg about, is that correct?

Mr. McCONNACHIE. Yes.

Mr. GRAY. Have you looked into and can you give me any explanation of the distribution of the \$92,000 that was paid out to people who were not participators in this pool?

Mr. McCONNACHIE. No, sir. I have no knowledge of it.

Mr. GRAY. Your books do not show the reason for it at all, do they?

Mr. McCONNACHIE. I haven't the details in mind as to that transaction.

Mr. GRAY. F. J. Thiel works for your company, does he not?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Do you know why he should be paid \$10,000 out of this syndicate or pool?

Mr. McCONNACHIE. Only I believe that F. J. Thiel had a trading account with the firm and he might have been included in the syndicate to a limited amount of stock without signing a syndicate agreement.

Mr. GRAY. His name does not appear on your books, as a participant?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Why would you make him a present of \$10,000?

Mr. McCONNACHIE. Because he may have been regarded as a valued client of the firm.

Mr. GRAY. As a valued client of the firm?

Mr. McCONNACHIE. A valued customer of the firm.

Mr. GRAY. Well, he worked for you, didn't he?

Mr. McCONNACHIE. Besides being a partner he may have had a trading account.

Mr. GRAY. He is a partner, is he?

Mr. McCONNACHIE. Yes.

Mr. GRAY. And you give him \$10,000 just because he was a valuable customer as well as a member of the firm?

Mr. McCONNACHIE. He may have lost money in other trades which were recommended to him, and for that reason this might have been given to him, a participation, a small participation, to make up his losses in other trades. But I have no detailed knowledge as to any of these transactions.

Mr. GRAY. What right would Meehan & Co. have to give to one of their members of the firm who was also a customer, and also a client—I think you used both words in connection with him—\$10,000, because he had lost something in some other transactions, out of the moneys of these participants?

Mr. McCONNACHIE. I have no knowledge as to the actual transaction and the basis of it. I am only stating that as a possible reason why he was given a small participation.

Mr. GRAY. Who could tell us?

Mr. McCONNACHIE. Only Mr. Meehan himself.

Mr. GRAY. Where is Mr. Meehan?

Mr. McCONNACHIE. Mr. Meehan, as you know—

Mr. GRAY. Well, I want to get on the record where he is.

Mr. McCONNACHIE. Yes. Mr. Meehan, as you know, is a very sick man, and he sailed on the steamer for Europe the other night.

Mr. GRAY. When?

Mr. McCONNACHIE. I beg your pardon?

Mr. GRAY. When?

Mr. McCONNACHIE. He sailed last night.

Mr. GRAY. He sailed last night?

The CHAIRMAN. Because he was sick?

Mr. McCONNACHIE. I beg your pardon?

The CHAIRMAN. Because he was sick?

Mr. McCONNACHIE. The doctor advised him—three of the leading doctors of New York advised him to go away for a much-needed rest.

Senator BROOKHART. Are they participants in any of these pools?

Mr. McCONNACHIE. I beg your pardon?

Mr. GRAY. What was your question, Senator Brookhart?

Senator BROOKHART. Are those doctors participants in any of these pools?

Mr. GRAY. Senator Brookhart asks if those doctors were participants in any of these pools?

Mr. McCONNACHIE. I don't know who the participants were, other than those names whom you read out, and I don't believe you read out the name of any doctor.

Mr. GRAY. Doctor Ash is there.

Mr. McCONNACHIE. No; they are not participants.

Mr. GRAY. He is one that got \$10,000 out of this pool without any apparent interest in it.

Mr. McCONNACHIE. I don't know anything about him (meaning Doctor Ash).

Mr. GRAY. I will say to the committee that approximately two weeks ago I saw and interviewed Mr. Meehan, and there was no question, I say that in fairness, but what he at that time was not a well man. And when I determined, or was advised by the committee that we were going to have sessions to-day, I understood that Mr. Meehan was at Brown's Sanitarium at Garrison, N. Y. I sent someone there to subpoena him and found that he was not there. I was afterwards advised by Mr. McConnachie that he was at Mahopac, N. Y. We did not endeavor to locate him at Mahopac, N. Y. In the maze of things that we have had to take care of in the last few weeks, I thought that we had something more important, and we did have all of this Radio pool worked up from the books of Meehan & Co. where, after the little difficulty that we had with all of the brokers subsided, they were opened to us over there. This is the first information I have, however, that Mr. Meehan became well enough to sail for Europe last night.

Senator FLETCHER. Is Mr. Meehan the senior member of this firm?

Mr. McCONNACHIE. Yes, sir.

Senator FLETCHER. How long had he been in business?

Mr. McCONNACHIE. I think his seat on the stock exchange was purchased in 1920.

Senator BROOKHART. Who was the next man in authority after Meehan?

Mr. McCONNACHIE. I am the managing partner of the firm.

Senator BROOKHART. But you were not the manager at the time of this pool?

Mr. McCONNACHIE. No, sir.

Senator BROOKHART. Who was at the time of this pool?

Mr. McCONNACHIE. Mr. James P. McKenna was the office manager of the firm at that time.

Senator BROOKHART. Wouldn't he know about these matters?

Mr. McCONNACHIE. Why, I don't know how much he would know with reference to the details of the transactions.

Senator BROOKHART. Where is he?

Mr. McCONNACHIE. He is in New York City with another firm.

Senator FLETCHER. How many partners in this firm of Meehan & Co.?

Mr. McCONNACHIE. There were about nine partners, I believe.

Senator FLETCHER. Mr. Meehan was in the brokerage business before he bought a seat on the stock exchange?

Mr. McCONNACHIE. He was a member of the curb market.

Mr. GRAY. Are you through, Senator Fletcher?

Senator FLETCHER. Yes.

Mr. GRAY. Name the members of your firm will you? Mr. Michael J. Meehan is one. Your own name is James McConnachie?

Mr. McCONNACHIE. James F. McConnachie.

Mr. GRAY. Yes.

Mr. McCONNACHIE. Esmoud O'Brien.

Mr. GRAY. Yes?

Mr. McCONNACHIE. Richard O'Brien. George Garlick.

Mr. GRAY. Spell that last name.

Mr. McCONNACHIE. G-a-r-l-i-c-k.

Mr. GRAY. Yes?

Mr. McCONNACHIE. James Meehan.

Mr. GRAY. Is he a brother of Michael J.?

Mr. McCONNACHIE. Yes. Mr. Thomas Meehan. Mr. Higgins.

Mr. GRAY. Which Higgins? Joseph?

Mr. McCONNACHIE. Peter J. Higgins.

Mr. GRAY. Is he a brother of Joseph?

Mr. McCONNACHIE. No relation.

Mr. GRAY. No relation? All right.

Mr. McCONNACHIE. Did I mention Mr. Thomas Meehan?

Mr. GRAY. Yes. Is that all?

Mr. McCONNACHIE. That is all.

Mr. GRAY. Now, you know, do you not, from the records of your concern—

Mr. McCONNACHIE. Oh, Mr. Frank Thiel.

Mr. GRAY. Mr. Frank Thiel?

Mr. McCONNACHIE. Yes.

Mr. GRAY. The one that got that \$10,000, and you forgot him as a member of the firm. You know from the records of your concern—or let me ask you a question first. Are your firm or any of its members specialists in Radio to-day?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Who?

Mr. McCONNACHIE. Why, the firm.

Mr. GRAY. The firm?

Mr. McCONNACHIE. The firm.

Mr. GRAY. So that any member of the firm may act on the floor as a specialist in Radio?

Mr. McCONNACHIE. They may, but the work is done—is handled almost exclusively, in so far as it can be handled by one man, by Mr. O'Brien.

Mr. GRAY. Mr. Esmond O'Brien?

Mr. McCONNACHIE. Mr. Esmond O'Brien.

Mr. GRAY. And he has been with the firm how long?

Mr. McCONNACHIE. Practically since its inception.

Mr. GRAY. Yes. And in 1929 when your firm was operating this new Radio stock pool he was the specialist on the floor of the exchange in Radio? Is that right?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Now as a matter of fact, in that time there was more than one specialist, wasn't there?

Mr. McCONNACHIE. Well, there were those who did operate in Radio, but we have always been regarded as the leading specialist in Radio.

Mr. GRAY. Yes; but more than one member of your firm would have acted at that time as specialist on the floor in Radio?

Mr. McCONNACHIE. Well, others assisted in handling the stock on the floor.

Mr. GRAY. Yes; but O'Brien had control of the situation?

Mr. McCONNACHIE. Yes.

Mr. GRAY. All right.

Senator FLETCHER. What is the stock outstanding of Radio?

Mr. McCONNACHIE. I beg your pardon?

Senator FLETCHER. What is the Radio stock outstanding now?

Mr. McCONNACHIE. I couldn't tell you.

Senator TOWNSEND. Five million no par shares.

Mr. GEORGE K. WATSON (accountant). Thirteen million shares.

The CHAIRMAN. The accountant says 13,000,000 shares.

Senator FLETCHER. I should think those who specialize in Radio and handling it and dealing in it all the time should know something about how much stock is outstanding.

The CHAIRMAN. There seems to be no limit.

Senator BROOKHART. In this kind of a pool you are not interested in the amount of stock outstanding, are you? In pools manipulated like this one?

Mr. McCONNACHIE. Well, the great bulk of the stock of Radio has always been held by the General Electric Co. and the Westinghouse.

Senator BROOKHART. Hasn't been on the market at all?

Mr. McCONNACHIE. Why, there has been a large floating supply of stock, but they have been the principal stockholders in Radio Corporation.

Senator BROOKHART. They have kept back enough to control it without putting it on the market at all?

Mr. McCONNACHIE. Well, I do not know about that, sir.

Senator COUZENS. Have you been happier since you were in the brokerage business than you were with the United States Treasury?

Mr. McCONNACHIE. Well, unfortunately, since I have been in the brokerage business it has been rather on a decline and it has not been a very happy business to be in. But I am so devoted to Mr. Meehan that I am very happy to be with him, particularly in times of stress and turmoil, because he is a man of very high character.

Senator BROOKHART. High speed, too?

Mr. McCONNACHIE. I beg your pardon?

Mr. GRAY. "High speed," Senator Brookhart very properly said.

Mr. McCONNACHIE. High speed—well, he isn't very high speed to-day, because he isn't a very well man.

Senator FLETCHER. What is his age, about?

Mr. McCONNACHIE. Forty years of age.

Senator BROOKHART. Well, there are more than one kind of pools. That is, they are formed for several different purposes, aren't they?

Mr. McCONNACHIE. Well, you speak of pools. I don't know what—

Senator BROOKHART. Syndicates?

Mr. McCONNACHIE. I don't know exactly what you mean by pools. Now, in this—

Senator BROOKHART. Well, do you call this a pool or a syndicate?

Mr. McCONNACHIE. Well, you can call it either. I suppose it might be known as a pool, and it might be referred to as a syndicate.

Senator BROOKHART. Well, this was not a syndicate or pool formed to sell the original stock to the public, was it?

Mr. McCONNACHIE. No.

Senator BROOKHART. To float a new issue? Anything of that kind?

Mr. McCONNACHIE. No.

Senator BROOKHART. This was just formed to go in and manipulate the market and take the public's money away from them?

Mr. McCONNACHIE. Well, that is your definition, Senator, of a pool—or that is your definition of this particular transaction.

Senator BROOKHART. Well, that is what it did, didn't it?

Mr. McCONNACHIE. That may have been the effect of it. But I question seriously the correctness of that assumption.

Senator BROOKHART. Well, it did not promote any new enterprise or start any new industry or anything of that kind, did it?

Mr. McCONNACHIE. Except that the company itself was starting new industries continuously. They were extending their business—

Senator BROOKHART. Was this pool formed to help them do that?

Mr. McCONNACHIE. No, sir; I would not contend that. The pool was organized before I became a partner of M. J. Meehan & Co.

Senator COUZENS. Have there been any pools started since you have been a member?

Mr. McCONNACHIE. No, sir.

Senator COUZENS. No pools or syndicates have been started since you have been a member of the firm?

Mr. McCONNACHIE. No, sir. This radio pool, as you term it—

Mr. GRAY. Yes.

Mr. McCONNACHIE (continuing). Is an operation in connection with which you have shown a very substantial profit.

Mr. GRAY. Yes.

Mr. McCONNACHIE. But our records show that we had holdings in companies of substance and that are very well known where the results instead of showing a profit show a loss of over \$8,000,000.

Mr. GRAY. Over what period of time?

Mr. McCONNACHIE. Over practically the same period of time.

Mr. GRAY. Not over this week—

Mr. McCONNACHIE. Not the same period of time in which you give the facts in connection with the operation of Radio—of the new stock, as you have described it—but in that particular matter where Mrs. Meehan was a participant her profits were \$378,000, and

I have here five transactions, some of them in connection with securities that the firm specialize in, showing losses of \$8,200,000.

Senator COUZENS. They were not the same partners though, were they?

Mr. McCONNACHIE. I beg your pardon?

Senator COUZENS. They were not the same partners all the time, were they?

Mr. McCONNACHIE. No, sir.

Senator COUZENS. Mr. Gray is talking about one particular pool with one set of partners, and now you are mixing up a lot of other cases that have nothing to do with the Radio case.

The CHAIRMAN. And picking out certain transactions and detailing them instead of taking anything that is relevant to the matter under inquiry.

Mr. GRAY. And not considering others in which other money was made. In other words, he is now showing you as an offset to Radio, certain pools in which money was lost. Mrs. Meehan was a very heavy trader, wasn't she, Mr. McConnachie?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. And that was Mr. Meehan's account?

Mr. McCONNACHIE. No; it was Mrs. Meehan's account.

Mr. GRAY. All right; it was Mrs. Meehan's account.

Senator COUZENS. Did she operate it herself?

Mr. GRAY. She never came in your place, did she?

Mr. McCONNACHIE. Rarely. She had—

Mr. GRAY. Who operated it, then—to put Senator Couzens's question in another way—Mr. Meehan, didn't he?

Mr. McCONNACHIE. You would have to obtain the facts from Mr. Meehan. I do not know personally.

Mr. GRAY. Who has operated Mrs. Meehan's account in the last two years since you have been there. Who has given orders to buy and sell?

Mr. McCONNACHIE. They were never given to me, sir, so I couldn't—I can't—

Mr. GRAY. You are a next senior member of the firm and you don't know who gave the orders to buy and sell in Mrs. Meehan's account?

Mr. McCONNACHIE. I am the managing partner.

Mr. GRAY. All right; that puts you, then, much closer to the throne. Tell me who gave the orders to buy and sell Mrs. Meehan's stock, please.

Mr. McCONNACHIE. I couldn't say definitely.

Mr. GRAY. Have no idea?

Mr. McCONNACHIE. Yes; I have an idea.

Mr. GRAY. What is your idea on the subject?

Mr. McCONNACHIE. I surmised that Mr. Meehan gave those instructions usually, but not always.

Mr. GRAY. You would be taking a very long chance if you surmised it was anybody else, wouldn't you?

Mr. McCONNACHIE. I believe that Mrs. Meehan did occasionally, but I would say that Mr. Meehan usually did it.

Mr. GRAY. Was Mrs. Meehan's account the firm account?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Now, the firm did have an account and traded on their own account, didn't they?

Mr. McCONNACHIE. I don't believe so.

Mr. GRAY. Mr. Meehan's account consisted—

Mr. McCONNACHIE (interposing). I think I can almost say emphatically no; that the firm never did trading on its own account.

Senator GLASS. What difference does it make in the principle of the thing whether a syndicate loses money or makes money, if it was organized to manipulate the market?

Mr. GRAY. Before I get through I will show you some ways they lost money that have features in them that I think are deserving of attention.

Senator BROOKHART. How much did this particular pool cost the public?

Mr. McCONNACHIE. In the first place, Senator, I have made the statement that I am not familiar—that happened before I went with the firm.

Senator BROOKHART. You seem to have some others there, though, when the pool lost. So I thought maybe you could tell how much the public lost.

Mr. McCONNACHIE. These are not figures in reference to pools. These are figures I have got here in reference to personal purchases of stock, and the later sales of that same stock, some of the stock representing securities in which the firm was specialist, where the losses involved millions of dollars.

Mr. GRAY. In other words, you are only showing us, however, the account of Mrs. Meehan, a customer of your firm, in which your firm is not interested.

Senator COUZENS. Mr. Chairman, in that connection I think I am going to ask to have this expunged from the record unless he submits the names of the concerns in which they lost \$8,000,000. In other words, Mr. McConnachie is putting in the record a matter that is not before us, but if he chooses to go on and say what stocks and in what operation Mrs. Meehan lost this money, why, I will not object.

Mr. McCONNACHIE. I submit herewith a list representing the losses in the different operations.

The CHAIRMAN. And the dates of them?

Mr. McCONNACHIE. No; I haven't the dates here.

The CHAIRMAN. I suggest that the record should be complete to that extent, or we can not use it.

Senator GLASS. Well, if it was not a syndicate operation, and it was not a pool operation, it is not pertinent to this inquiry.

Mr. GRAY. No; I say to Senator Glass that we have requested not only from this firm but from other firms where Mrs. Meehan's accounts were kept, transcripts of their accounts. We are getting them. They are in immense volume. We expect to analyze them, not only in connection with the operations of Meehan & Co. but in connection with Mrs. Meehan's operations on the short and the long side of the market. When we were asked to come down here this morning, we concentrated on those things that we thought we would have in more or less complete form. Those things we have not been able to bring. I have Mr. Meehan's accounts and Mr. Brush's accounts and Mr. Ben Smith's accounts. There is a tremendous volume. We are going through them. If Senator Couzens is through—I don't know whether you were through with that part?

Senator COUZENS. He was going to read a list of the stock. We might, as long as he has that, have him read off a list of the stocks in which these losses occurred.

Mr. McCONNACHIE. International Match, 2,700,000.

Senator GLASS. Is this Mrs. Meehan's loss?

Mr. GRAY. So the record will show, is that the loss of Mrs. Meehan in dollars?

Mr. McCONNACHIE. Yes.

Mr. GRAY. This is Mrs. Meehan?

Mr. McCONNACHIE. Yes.

Mr. GRAY. A client of yours?

Mr. McCONNACHIE. Yes. American Steel Foundries, 730.

Senator COUZENS. Thousand?

Mr. McCONNACHIE. Yes.

Senator TOWNSEND. \$730,000?

Mr. McCONNACHIE. \$730,000. General Asphalt, \$570,000; Simms Petroleum, \$4,000,000; Chrysler, \$200,000. In this connection I would like to draw the committee's attention to the fact that, although we are specialists in International Match and Steel Foundries, this fact did not prevent a loss of over \$3,400,000 in connection with these two securities.

Mr. GRAY. Most of which was Match, because you got caught just at a bad time?

Senator GLASS. That means losses on paper in the present status of the market?

Senator WALCOTT. Well, does it? Have you taken those losses?

Mr. McCONNACHIE. Those are actual losses.

Senator WALCOTT. Those are actual losses, are they not?

Mr. McCONNACHIE. Yes, sir; these are actual losses.

Mr. GRAY. Have you completed that?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. I want to make this very clear. We were discussing with you M. J. Meehan & Co.'s handling of a new Radio Syndicate, and the things that appear on their books. No question was asked you at all about Mrs. Meehan's account. Why do you present to this committee a picture of Mrs. Meehan's losses in certain stocks, when M. J. Meehan & Co. had no interest whatsoever in that transaction? What is your purpose in presenting it?

Mr. McCONNACHIE. Well, my purpose in presenting it is in view of the fact that the matter that you are presenting, and that is the question of profits in this so-called radio pool—

Mr. GRAY (interposing). That is, profits of the participants in the pool?

Mr. McCONNACHIE. Involves not the firm of M. J. Meehan & Co. or Mr. M. J. Meehan personally, but only involves Mrs. Meehan. So I was pointing out as against this small profit of \$378,000 in this transaction there are over \$8,200,000 losses in other transactions, and two of these losses representing stocks in which the firm acts as specialist.

Mr. GRAY. Yes. All right. Well, you are telling us something about Mrs. Meehan's transactions, on which we have not asked anybody. M. J. Meehan & Co., however, out of that radio pool got a split in the manager's fees amounting to over a quarter of a million dollars, didn't they?

Mr. McCONNACHIE. I don't know anything about that.

Mr. GRAY. And got commissions of over \$580,000?

Mr. McCONNACHIE. I don't know anything about that.

Mr. GRAY. Now, let me ask you—

Senator GLASS (interposing). Therefore, I say that the testimony he is presenting now with respect to Mrs. Meehan is not at all pertinent to this inquiry. That simply indicates that she unfortunately dealt on her own account with respect to these stocks and did not enter a pool.

Mr. GRAY. That is all. She not only dealt in her own account but she dealt in pools in those transactions, but I am not concerned in this inquiry, unless this committee is, or any member of it, with what Mrs. Meehan may have made or lost only as it was in connection with the records of that particular pool.

Senator BROOKHART. Let me ask you on this proposition: You have shown up her losses here. Did she have profits on other transactions that you have not shown up?

Mr. McCONNACHIE. I would say that she must have had profits on other transactions.

Mr. GRAY. So you have not got the net position at all.

Senator BROOKHART. You do not know whether they were fifteen million or twenty million, or what they were?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. I have several questions to ask him, but I am not going to ask him about that particular part. I want to ask you about this radio pool. What, if anything, do you know about the General Electric Co. entering into an agreement with Meehan & Co. not to sell during the time of the operation of this pool, during that one week from March 12 to March 19—anything?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Have you heard any discussion of it at all?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Knew nothing about it? After this pool was started and since you—by the way, can you give us the exact date you went with Meehan?

Mr. McCONNACHIE. Yes; in June 1930.

Mr. GRAY. Since then has M. J. Meehan or M. J. Meehan & Co. or Mrs. Meehan—and I am now asking you about that because I am treating it as an account in which M. J. Meehan was interested—been short on Radio?

Mr. McCONNACHIE. I could not say.

Mr. GRAY. You mean you have no recollection of accounts of the firm or in accounts of M. J. Meehan or in accounts of Mrs. Meehan whether or not they have had a consistent short position since you have been with the firm?

Mr. McCONNACHIE. I could not say.

Mr. GRAY. Are they short on the books now in Radio?

Mr. McCONNACHIE. I would say no, but I could not make a positive statement.

Mr. GRAY. All right; your answer is that you do not know. I want to say to you—and I am stepping up from Radio to get just one bit of information while he is on the stand—did you know of an account, Account No. 118, which is the account known as Joseph E. Higgins and Bradford Ellsworth?

Mr. McCONNACHIE. I didn't know that there was such a joint account.

Mr. GRAY. Do you know an account known as No. 815?

Mr. McCONNACHIE. Not by number. If you would tell me the—

Mr. GRAY (interposing). Do you know an account No. 815 in which Higgins and Bradford Ellsworth operated in Electric Autolite Co.?

Mr. McCONNACHIE. I know the stock Electric Autolite, but I don't know of any such account.

Mr. GRAY. Did Meehan & Co. have an option to buy a certain amount of Electric Autolite stock?

Mr. McCONNACHIE. I know that there was an option in the office on Electric Autolite, but as to who had that option I couldn't say.

Mr. GRAY. Some member of your firm?

Mr. McCONNACHIE. I don't believe that the firm had it.

Mr. GRAY. And against that option there was a short operation, wasn't there?

Mr. McCONNACHIE. In other words, you mean to say that the stock was sold or was oversold?

Mr. GRAY. No, I mean to say that the stock was sold short and the option never taken up because of the drop in the market that was forced by the short selling; is that right?

Mr. McCONNACHIE. I couldn't say.

Mr. GRAY. We have the records and the books. We will present that later.

Mr. McCONNACHIE. The books will show it.

Mr. GRAY. You had an operation in Simms Petroleum, didn't you, in which your firm of M. J. Meehan & Co. were the managers of another pool?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Do you remember an item of \$10,000 that was paid out in Simms Petroleum to somebody?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Did you have anything to do with the payment of such an item to anybody aside from the pool participants?

Mr. McCONNACHIE. I think that started before I went with the firm, that is, the operation in Simms Petroleum.

Mr. GRAY. I understand that is correct. That is all I want to ask him. I want to put the specialist on and then we will conclude with that. Mr. O'Brien.

TESTIMONY OF ESMONDE F. O'BRIEN, NEW YORK CITY

Senator FLETCHER (presiding). State your name and place of residence and occupation.

Mr. O'BRIEN. Esmonde F. O'Brien, business address 30 Broad Street, New York City, 33 years of age.

Senator FLETCHER (presiding). Do you solemnly swear that the evidence you give in this matter will be the whole truth and nothing but the truth, so help you God?

Mr. O'BRIEN. I do.

Mr. GRAY. Mr. O'Brien, you are a member of the firm of M. J. Meehan & Co.?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. You have been so for how long?

Mr. O'BRIEN. I have been a member of the firm since December 31, 1924.

Mr. GRAY. And you were the member of the firm that acted as the specialist on the floor in Radio; is that correct?

Mr. O'BRIEN. I have generally been the Radio specialist.

Mr. GRAY. And you were in 1929 in the month of March?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. You were the specialist and the member of the firm who executed the orders for new Radio stock in which this pool that we have here been discussing was carried out; that is right, isn't it?

Mr. O'BRIEN. Well, it is right in a sense. I was the specialist in general. I executed everybody's orders that was a member of the stock exchange, and in being the specialist I may, and probably did, execute pool orders or syndicate orders.

Mr. GRAY. No question about that?

Mr. O'BRIEN. No, sir.

Mr. GRAY. You must have been the one who executed them?

Mr. O'BRIEN. Not the one. I was one of the ones, probably.

Mr. GRAY. Well, you were the one who in those busy days had the control of the other members of your firm or others who were acting as specialists; they were under you; that is correct, isn't it?

Mr. O'BRIEN. Well, if you will let me explain.

Mr. GRAY. Yes; I wish you would.

Mr. O'BRIEN. Our books, the Radio books at the time—

Mr. GRAY (interposing). By Radio books you mean the specialist Radio books?

Mr. O'BRIEN. Yes; specialist's books. I have sheets here if you would like to see them.

Mr. GRAY. Why, yes; I think some of the committee would like to see how they are kept.

Mr. O'BRIEN. This may not be what you are asking, but I will be glad to go into it.

Mr. GRAY. That is all right.

Mr. O'BRIEN. We have loose-leaf books. You see, I only have these sheets with me. They go in a binder, the binder on each side, and they are divided off into the fractions, you see, an eighth and a fourth and a half, and so on.

Mr. GRAY. Wait—you are going a little rapidly with it. What do you mean by divided off into fractions?

Mr. O'BRIEN. Well, for instance, I say you get—supposing Radio is 80.

Mr. GRAY. Yes.

Mr. O'BRIEN. This page would be marked 80 on the top here.

Mr. GRAY. Yes.

Mr. O'BRIEN. And orders at 80 would be entered at the section of this page where 80 mark is on.

Mr. GRAY. Then there are various places down the page for the various fractions in eighths until it reaches 81 or $80\frac{7}{8}$?

Mr. O'BRIEN. Yes; that is quite correct.

Mr. GRAY. So that you enter on those sheets what the particular fraction is on that page?

Mr. O'BRIEN. That is correct.

Mr. GRAY. And you have one page for the buying and one for the selling?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. All right. I will be glad for you to go right ahead and explain it, but specifically with respect to Radio, which will mean generally, of course, how the specialist operates.

Mr. O'BRIEN. How the specialist operates. These sheets are kept in these looseleaf binders. At the particular time, in 1927, 1928, or 1929—those were the three biggest years, as I recall—the volume was very, very big, particularly in Radio. It was big on the whole floor in every stock. Where there was so much trading we often had to split this book. I mean by that that we would have one book with all the 80 stock in it, you see, the even stock at 80. Another book would have the 81 stock. Do you follow what I mean?

Mr. GRAY. Yes; I am following.

Mr. O'BRIEN. And that was with the two books. Now, you would get a swarm of orders at all different prices, both above and below and at the market in Radio, not alone from M. J. Meehan & Co., which was my office, or my firm, but from every member on the stock exchange whose customers were trading in Radio.

Mr. GRAY. Let me stop you there just a minute.

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. Is it not a fact that nearly every brokerage house in New York, nearly every one, that at that time had orders to buy or sell Radio, felt that it would be better for them and their customers to send it through Meehan & Co., and didn't they usually do it?

Mr. O'BRIEN. I don't believe so; no, sir.

Mr. GRAY. You don't believe so?

Mr. O'BRIEN. I don't see how they could, because the volume could not be handled by one firm.

Mr. GRAY. All right; go ahead.

Mr. O'BRIEN. In addition to the book in the active crowd on the stock exchange there might be anywhere from 20 to 40 brokers—it is a big skip, but that is so—with both buying and selling orders for their house or their firm's clients.

Mr. GRAY. You mean there might be 20 or 40 brokers who, in addition to the specialists, would be around the post known as the Radio post?

Mr. O'BRIEN. That is correct.

Mr. GRAY. And they may have either buying or selling orders?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. Which they may or may not, as the circumstances justify it, leave with the specialist for execution?

Mr. O'BRIEN. Quite right.

Mr. GRAY. All right; go ahead.

Senator COUZENS. How many assistants as specialists did you have?

Mr. O'BRIEN. Well, I should say two in these particular times.

Senator TOWNSEND. They were both members of your firm?

Mr. O'BRIEN. They were both members, but we had another man that was not a member that had to come in and help us out on occasional days, for three or four days in a row.

Senator TOWNSEND. What firm?

Mr. O'BRIEN. His name was Stanley Kohn, a member of the stock exchange.

Senator TOWNSEND. He had all the information that you had as a specialist?

Mr. O'BRIEN. He would have the information that the book would show him; yes, sir. But, according to the rule of the stock exchange, he is a specialist and he is bound under that rule just the same as I would be, you see.

Senator COUZENS. So, in effect, there were really four specialists, including yourself and assistants?

Mr. O'BRIEN. Yes, sir; on these busy days there were three or four.

Senator COUZENS. And they had possession of the books in the same way you did?

Mr. O'BRIEN. Yes. Now, you asked about how the orders would come through me. An order, when it is entered or given to the specialist, generally comes in, unless it is a verbal order—very few verbal orders; most of them are written. This, unfortunately, is not a regular order pad, but it comes in with the firm's name, giving it on the bottom of it, and on the top it is marked buy or sell so many thousand shares or the units of shares, and the price that is marked on the other side. That comes in and is left with the specialist. If the broker who brings it in can not execute it himself and does not care to wait in the crowd until he thinks he might be able to execute it.

Mr. GRAY. Now, all of the orders brought through M. J. Meehan & Co. would have been left with you or one of the other specialists?

Mr. O'BRIEN. Well, I would say a good many of them might have been coming in.

Mr. GRAY. Well, what other brokers would come in there with orders from M. J. Meehan & Co. in Radio?

Mr. O'BRIEN. Well, floor brokers, for instance.

Mr. GRAY. They would not bring them from M. J. Meehan & Co.?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. How would they get them?

Mr. O'BRIEN. From the clerk.

Mr. GRAY. From whose clerk?

Mr. O'BRIEN. My telephone clerk.

Mr. GRAY. Your telephone clerk?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. Do you mean to tell me that your telephone clerk of M. J. Meehan & Co. would send either buy or sell orders to some other broker on the floor when you and three other assistants, two others of whom were members of your firm, were there acting as specialists in Radio; that they would send it to some other brokers?

Mr. O'BRIEN. He might.

Mr. GRAY. Why?

Mr. O'BRIEN. Why? To get a quicker report.

Mr. GRAY. How much quicker could he get a report from some other broker than he could get it from you, a member of the firm?

Mr. O'BRIEN. He could get it this much quicker, in this way: You must remember that when you are specializing you can not sit at a table like we can now and write your orders down as carefully as I could write them at this table.

Mr. GRAY. Yes.

Mr. O'BRIEN. As I mentioned before, there are 30 or 40 men milling around pushing each other all over. I suppose you have seen the floor of the exchange. If you have not, it is a hard thing to imagine how excited they become down there in a busy market, pushing you all over, pulling your collar and tie out, losing pencils and pads or anything—with a waving of the hands. Do you see what I mean.

Mr. GRAY. I see; yes.

Senator GLASS. Lose your money, too?

Mr. O'BRIEN. Yes; sometimes.

Mr. GRAY. But, Mr. O'Brien, I am probably a little bit astonished at your statement. You testified that you are a member of the firm of Meehan & Co.?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. On the floor specializing in this Radio stock?

Mr. O'BRIEN. That is quite right.

Mr. GRAY. Here are two other members of your firm of Meehan & Co. on the floor handling Radio orders as specialists therein, and occasionally, as you said, probably a fourth man that you had to take some outside?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. But here are three members of the firm of Meehan & Co. But if Meehan & Co. gave that order to another member there is a division of commission?

Mr. O'BRIEN. There is a \$2.50 extra charge.

Mr. GRAY. Do you mean to tell me that Meehan & Co., who could give the orders to you men that were specializing in Radio, and therefore could execute such an order with much more rapidity than any outside broker could, would send that order to an outside floor broker and ask him to go into this mob that you are talking about and try to execute it?

Mr. O'BRIEN. I think it is quite possible that they did. I don't say that it is sure, but I say it has been done.

Mr. GRAY. Oh, it might happen in some extraordinary instances.

Mr. O'BRIEN. I would like to keep on the same story about the office; they may not have sent the orders over our phone, for instance. Whoever was handing out these orders, the pool managers, syndicate managers, or whatever office they were in; whether they were in ours or not I have no knowledge.

Senator BROOKHART. What instructions does your clerk have in transmitting these orders? Were they to transmit them to you or to somebody else?

Mr. O'BRIEN. Well, Senator, they come over the telephone from the order room in the main office, you see, down to the floor of the stock exchange, where we have a clerk. There is a clerk who is up in the office, you see, and all orders are transmitted from the clerk in the order room to the clerk on the floor.

Senator BROOKHART. That is the exchange clerk you are talking about?

Mr. O'BRIEN. No; it is our own clerk.

Senator BROOKHART. That is why you instruct those clerks to take these orders and send them to other people than your own specialists?

Mr. O'BRIEN. Well, the only answer on the question that I may not have executed all the orders or many of them—

Senator BROOKHART. What I want to get at is whether or not the clerks did that under your instruction or whether it just happened.

Mr. O'BRIEN. No; it is a general practice on the exchange for the clerks who are, in addition to their own floor member of the exchange, on the exchange floor—do you see what I mean?

Senator BROOKHART. Yes.

Mr. O'BRIEN. For instance, the stock exchange—take any name you like—they have one or two members who are members of the stock exchange on that floor, those one or two members will at times be busy and can not be there all the time; they may want to go out. So in addition to those, these clerks have a list of buttons on their booths and they can press and call another floor broker—\$2 brokers, they call these floor brokers.

Senator BROOKHART. They first try you and if you can not attend to it they get those?

Mr. O'BRIEN. They might have; yes. That is quite true.

Senator GLASS. We are talking about the usual practice. We are not talking about the exceptional instances.

Mr. O'BRIEN. Now you asked me about my getting all the orders. It is quite possible, as I said before, that the syndicate or pool manager may have given the orders over the telephone to the office of some other broker.

Mr. GRAY. Now, have you told us all about the operations of a specialist? If not, I do not want to stop you, if you are not finished, because we are anxious to know anything else that you can tell us about the specialist.

Senator COUZENS. Let him finish his story about how the specialist does it and how he finished up his job.

Mr. O'BRIEN. These books are kept—normally, in a normal market it only takes one book. In an exceptional market it took more. They are kept all day long and there are quite a number of changes in the book. The book never remains constant very long. I should say in an active market it changes once a minute, the quantities of stock to be bought and sold on the specialist's book, because if the market starts to show a strong tone you will have people all over the country who are watching the ticker sending in cancellations or changes in their limits. Do you follow?

Senator GLASS. Would you call that investment?

Mr. O'BRIEN. Would I call that investment?

Senator GLASS. Yes.

Mr. O'BRIEN. Well, you might call it speculative investment, Senator. I don't know what you might call it.

Mr. GRAY. What do you mean by speculative investment?

Senator GLASS. Isn't it betting on the state of the market at a given time?

Mr. O'BRIEN. All I can say is I think it might be considered like anything else; they buy them with the hope of selling them higher.

Senator GLASS. Yes; the next minute?

Mr. O'BRIEN. Well, I guess five minutes; if they could get it, they would be willing to wait that long.

Senator GLASS. That is not Mr. Webster's or Mr. Worcester's definition of "investment," is it?

Mr. GRAY. Yes.

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Senator GLASS. That is not Mr. Webster's or Mr. Worcester's definition of "investment," is it?

Mr. O'BRIEN. I am sorry, sir; I really don't know either one of their definitions.

Senator BROOKHART. It is not necessary to know what an investment is to run this stock-exchange business, is it?

Mr. O'BRIEN. No, sir; I don't know much about investment myself, as my accounts will probably show you.

Senator GLASS. The reason I asked you that is because Mr. Whitney testified here that that was investment.

Mr. GRAY. He also said that he never heard of a pool.

Senator FLETCHER. Do these books remain in the possession of a specialist all the while?

Mr. O'BRIEN. Yes, sir. I was just going to get to that.

Senator TOWNSEND. That was your picture.

Mr. O'BRIEN. We have these numerous changes all day long in the sheets of the specialist's book. The stock might run from a total volume of thirty or forty thousand shares to the point. You see what I mean—the volume might vary between thirty and forty thousand shares on each point up and below. These changes take place all day. And when they get up to the office we would have a stock of orders to fill a big bag that high with cancellations and changes of limits. Sometimes we would have 14 and 15 orders all relating to one original order. Now, in the evenings and the nights at that time the specialist did not go home at 3 o'clock. I was in the office most nights until 12 o'clock and most of Sundays straightening out trades that had become confused.

Senator TOWNSEND. Did you have assistants in that work?

Mr. O'BRIEN. We all had to stay down; yes, sir; and straighten out the trades, and so forth, telephone calls and claims from other houses whose customers thought the time their order has been entered should have entitled them to a better price according to the tape and the time that the order was stamped, and so on. We had to sit there at night listening to these complaints and straightening them out where they were justified, and that took up until 8, 9, or 10 at night on those days.

Senator TOWNSEND. Who would be familiar with these books except the specialist himself?

Mr. O'BRIEN. With these books?

Senator TOWNSEND. Yes.

Mr. O'BRIEN. The only ones that would be familiar with those books would be the clerks who would write them up after 3 o'clock.

Senator TOWNSEND. The clerks were familiar with those books as well as the specialist?

Mr. O'BRIEN. But that did not concern the day's business, sir. You see, most of your orders are day orders that expire at 3 o'clock. The great percentage of them are day orders, what is known as day order, which is only good for a day. There are three different kinds of orders which are recognized. One is the G. T. C. order, which means good till canceled. The next is G. T. M., good till a month, and the next order, the most common with New York houses, is a day order.

Mr. GRAY. Then, of course, there is a market order?

Mr. O'BRIEN. That would be a day order, because that would have to be executed that day.

Mr. GRAY. It could be a day order on a fixed price, too?

Mr. O'BRIEN. Yes. Sure. That is what I mean.

Mr. GRAY. Then it could be a market order, which is a day order?

Mr. O'BRIEN. Yes, sir; but you see the day orders expire at 3 o'clock. So in answer to the clerks having this information, they would only be checking over our books to see if so-and-so got a report on his 500 shares. The particular house will call up and say, "All right; we didn't get a report on a thousand Radio you had to buy for us at 80½." So the clerk or myself, or if I am busy some place else he might do it for me, would look in a book and see if I bought a thousand from some other house on the Street.

Senator TOWNSEND. In other words, the clerks would be familiar with it as well as the specialist?

Mr. O'BRIEN. That day's business that had just gone through. He would not see these books until after 3 o'clock.

Senator COUZENS. So in effect the specialist has a lot of very worth while information during the course of the day's market operations?

Mr. O'BRIEN. Sir, I never found it of much benefit, because the volume is so big, in my stock. Now, I can not speak in general, because since I have been a member of the exchange I have been principally, in fact entirely, in our own specialties, and Radio, of course, is a very big volume stock, and I do not think the book shows anything one way or the other.

If I may answer about the stop orders that you asked about before, I can do that in connection with the book.

Mr. GRAY. Go ahead.

Mr. O'BRIEN. The only possible place where a book might show anything and where a specialist is bound to keep the information strictly to himself is caused by stop orders. And that is not limited to members of the stock exchange. A stop order can be put in by any customer trading in any office in the Street, as you know, and he does not get any information any more than another member of the exchange will get information as to what condition the book is in at that particular price that he wants to put the stop on. He puts the stop order on. We will assume that I have bought 500 shares of radio, and I am a customer that is not a member of the stock exchange. I mean I am just sitting up in my office some place or in my branch office, and I buy 500 Radio at 80 and I do not want to take a bigger loss than 2 points on that 500 shares. So I give that 500 shares to sell at 78 stop.

Mr. GRAY. That is a stop-loss order?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. That is an entirely different thing.

Mr. O'BRIEN. No, sir.

Mr. GRAY. Oh, yes.

Mr. O'BRIEN. Will you let me elaborate on it?

Mr. GRAY. A stop order is an entirely different thing from a stop-loss order.

Mr. O'BRIEN. What is the difference?

Mr. GRAY. The stop-loss order is an order that you give after you have bought a stock at 80, as you have indicated.

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. And if it goes down to a point where it reaches 78 you are automatically out, because your broker automatically sells you or stops your line at that point.

Mr. O'BRIEN. That is right.

Mr. GRAY. We are talking about stop orders where orders are given to sell at a point below the present market and orders are given to buy at a point above the present market, which requires knowledge of the specialist's book—I say; Mr. Bragg says it does not—orders on the specialist's books to let the trader determine whether he thinks it is worth while to do that.

Mr. O'BRIEN. Well, we never get a full stop-loss order, because when an order reaches a point to be executed it becomes a day order.

Mr. GRAY. I think the entire committee understands what a stop-loss order is.

Mr. O'BRIEN. I do not see the difference yet, because it is put in at that price. The specialist does not know whether the man is long or short.

Mr. GRAY. The man who places a stop-loss order has to buy stock and wants to stop the loss at a certain point, but on a stop order he never buys any stock.

Mr. O'BRIEN. How would the specialist or anybody else know?

Mr. GRAY. I am not going to try to train you to answer questions or answer questions myself except what I have answered as to what happens on the exchange, when you know more about it than I do.

Mr. O'BRIEN. Well, I am very sorry, but I like to be clear on it. A stop order generally is known as a stop order. A stop loss order is the same as the stop order.

Mr. GRAY. All right.

Mr. O'BRIEN. I would like to be clear on it. That is my impression, that a stop loss order and stop order are generally known as the same thing.

Mr. GRAY. The distinction, as I see it, Mr. O'Brien—I do not want to prolong this discussion—is that on the stop loss order if a man has stock at 80, using that figure, he buys it at 80 and he wants to protect himself so that he will not lose more than \$2 a share, and he puts a stop-loss order in.

Mr. O'BRIEN. Yes.

Mr. GRAY. His broker must therefore automatically take him out of the market at 78 so that he does not lose 2 points.

Mr. O'BRIEN. It then immediately becomes a market order.

Mr. GRAY. When the price touches 78 his order automatically becomes a market order to take him out.

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. Now a stop order as Mr. Bragg explained it to us is where a man—we will take the same figure, 82—has no stock, but from information that he has as to the buying orders below 80 and as to the condition of the market on the specialist's book, he feels that the stock is going to go down. Therefore, he puts an order in to sell at 79, not stock that he has, but a short sale to sell at 79 if it reaches 79.

Mr. O'BRIEN. I can see where that could be done.

Mr. GRAY. What do you call that?

Mr. O'BRIEN. I call it a stop order, but it is generally used by the chart players. I am not pretending to know anything about

charts, but there are certain players in the Street that invest or speculate or whatever you call it. on these ups and downs. They figure that when a price breaks at a certain point it is going to go a certain place. They would not need any information from the specialist.

Mr. GRAY. There are certain resistant points and certain new marks that they figure?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. They think they know all about it?

Mr. O'BRIEN. Yes, sir; that is right.

Senator COUZENS. Let me get this clear. I understand what Mr. O'Brien says is a stop order, and I think I understand it the same way. He does not know whether it is a stop-loss order or a stop order or any other kind of an order when he gets it. If that is correct, that puts an entirely different aspect on the question of what a specialist does. In other words, I don't want any impression to go out here that these specialists are crooks if they are not. I mean, if I understand Mr. O'Brien correctly, he does not know whether it is a stop-loss order or any other kind of order except that it is a stop order when he gets it.

Mr. GRAY. I will go further than that, Senator. I will say that when a specialist gets an order he does not know anything about whether it is a short-sale order, whether it is an order to sell long stock, or what it is. It is simply, so far as he is concerned, an order to sell. Am I right about that?

Mr. O'BRIEN. You see, at the present time the exchange has a rule that you can not sell stock below the last sale. In that case orders are marked short to-day, but in general you are right. We do not know whether it is long stock or short stock or anything about it. In general I would say that a specialist is a \$2 broker or a commission broker who stays at one post and specializes in stocks that are listed at their post, that would be my definition, instead of running around the floor as a floor broker.

Mr. GRAY. Now, coming back to this Radio pool—

Senator GLASS (interposing). Right there let me ask a question prompted by Senator Couzens's question. Does not a specialist in a stock know the volume in which that stock is being dealt?

Mr. O'BRIEN. Doesn't he know the volume in which the stock has been dealt during that day?

Senator GLASS. Yes.

Mr. O'BRIEN. Anybody can get that information from an employee of the stock exchange who stands in any crowd. Each post of the floor has what we call a reporter, and he takes down the sales as they appear or happen in the crowd, and he sends that by a page boy over to a desk somewhat like that, and where the ticker operators are sitting. You see what I mean? And they send those sales out to a table where it is recorded—20,000 Radio or 5,000 Radio, and so forth.

Senator GLASS. What I am asking is, does not a specialist know the volume of orders to sell and the volume of orders to buy in that particular stock?

Mr. O'BRIEN. In his book?

Senator GLASS. Yes.

Mr. O'BRIEN. Yes, sir; he ought to have that.

Mr. GRAY. And he trades himself sometimes on that knowledge, doesn't he?

Mr. O'BRIEN. Well, he trades himself.

Mr. GRAY. On that knowledge?

Mr. O'BRIEN. I don't see that it is any knowledge. If you have 50,000 shares of Radio to buy from 80 down to 79 and you have 40,000 or 60,000 shares to sell from 80 $\frac{1}{3}$ up to 81, I do not know what knowledge that is. You can toss a coin up in the air and pick either side.

Mr. GRAY. Your answer, then, is that a specialist has knowledge, and though a specialist trades himself, the knowledge that the specialist has is no advantage to him in the matter of helping him to trade?

Mr. O'BRIEN. I don't think it is of any particular advantage.

Mr. GRAY. That is a matter of conclusion.

Senator COUZENS. I was going to ask you if you traded for yourself as a specialist.

Mr. O'BRIEN. Have I ever traded? Generally I have; yes, sir.

Senator COUZENS. As a specialist?

Mr. O'BRIEN. As a specialist, as a member of the firm, for the firm account.

Senator COUZENS. But not for your personal account?

Mr. O'BRIEN. I have no personal account.

Senator COUZENS. All your trading is for the firm?

Mr. O'BRIEN. All the trading.

Senator COUZENS. And you testify before this committee that your knowledge as a specialist and having that book before you have given you no advantage and you have gotten no advantage from that book in your trading operations?

Mr. O'BRIEN. I would say generally I do not see any advantage.

Senator COUZENS. Now just answer specifically. You say "generally." As a matter of fact, have you ever got any advantage?

Mr. O'BRIEN. No.

Senator COUZENS. In trading for Meehan & Co. yourself because you as a specialist had control of that book?

Mr. O'BRIEN. I do not think it gives you any knowledge.

Senator FLETCHER. What is the reason of the rule that the information shall not be given out?

Mr. O'BRIEN. Well, I should think that the rule applies to cases generally where the book might be in a weakened condition.

Senator COUZENS. What do you mean by a "weakened condition"?

Mr. O'BRIEN. Well, if you started where stop orders might build up, just under circumstances that we were talking about before; we get a group of stop loss orders, whether they are for long or short account; they would maybe get on your book, and you might get a possible balance to sell there of six or seven thousand shares.

Senator COUZENS. Wouldn't you have advantage of that knowledge when you come to trade?

Mr. O'BRIEN. But you are not allowed to use it.

Senator COUZENS. That is a different story.

Mr. GRAY. In other words, the whole difference is mental, if I may suggest to the committee. Here is a man that was the specialist

in Radio. Here is the man that was operating for Meehan & Co. You will have to draw your own conclusions as to whether it was an advantage.

Senator GLASS. I have already drawn mine.

Mr. GRAY. I brought this man down so as to give you a chance to draw some.

You are on the specialist proposition now and having no particular application to Radio. As a matter of fact, it has been common practice for people who wanted to raid a particular stock to get the knowledge of those stop loss orders from the specialist's book and drive the stock down to a point where all those stop loss orders will be taken up and the stock is wiped out; that is true, is it not?

Mr. O'BRIEN. Not as far as I know.

Mr. GRAY. You never heard of that being done?

Mr. O'BRIEN. I never heard of that being done; no, sir.

Mr. GRAY. Don't you know that everybody sitting around a brokerage office knows that it is being done? That is, they have reached down for stop loss orders and the stock goes up again? You never heard of that?

Mr. O'BRIEN. I have heard of it, but I never heard of it being done on the stock exchange.

Mr. GRAY. Where did they do it?

Mr. O'BRIEN. I don't know, but if it was done I know the member would be expelled.

Mr. GRAY. Of course, you can only tell what you know yourself. Have you traded yourself in Radio while you have been a specialist in Radio?

Mr. O'BRIEN. My own account; no, sir.

Mr. GRAY. You said that you traded for the Meehan firm account. You mean for M. J. Meehan & Co.?

Mr. O'BRIEN. Yes, the general account.

Mr. GRAY. Then M. J. Meehan & Co. as a brokerage firm and a member of the stock exchange have for themselves taken a position in Radio, long or short?

Mr. O'BRIEN. At times; yes, sir.

Mr. GRAY. At times.

Senator BROOKHART. Did you trade any for your wife?

Mr. O'BRIEN. I beg your pardon?

Senator BROOKHART. Did you trade any for your wife?

Mr. O'BRIEN. Yes, my wife has an account, very inactive account. I don't know whether she had any Radio or not. It does not amount to anything. It is a very small account.

Senator BROOKHART. And for the children, too?

Senator COUZENS. Just a minute; I would like to get Mr. Gray to carry that out.

Mr. GRAY. I wanted to, Senator. In other words, as a specialist and as a member of the firm of M. J. Meehan & Co. you have bought and sold Radio stock for that firm?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. In other words, M. J. Meehan & Co. have invested the money of the brokerage firm in the purchase of Radio stock?

Mr. O'BRIEN. Not the money of the brokerage firm.

Mr. GRAY. Whose money?

Mr. O'BRIEN. Our own money.

Mr. GRAY. Its customers?

Mr. O'BRIEN. No; our capital.

Mr. GRAY. Your capital, which belongs to the firm?

Mr. O'BRIEN. Yes, sir; part of it. Yes, sir. I misunderstood you.

Mr. GRAY. All right. M. J. Meehan & Co. have as a firm also taken a short position in Radio and sold short, have they not?

Mr. O'BRIEN. I don't doubt it, from time to time.

Mr. GRAY. Don't you know?

Mr. O'BRIEN. Well, I would say they have, but I can not remember any specific cases. Generally a specialist might be long to-day and short to-morrow.

Mr. GRAY. Yes, and M. J. Meehan & Co., with respect to Radio stock and while you were acting as a specialist, has at varying times taken either a long or a short position?

Mr. O'BRIEN. Yes, sir; I would say that.

Mr. GRAY. Do you know the position of M. J. Meehan & Co. in Radio to-day?

Mr. O'BRIEN. I should say it is even, one or two hundred shares.

Mr. GRAY. Very even?

Mr. O'BRIEN. I should say so. I don't know. I have not been in communication with the office.

Mr. GRAY. Has there been during the last year or year and a half a very voluminous or very great short position in Radio held by the firm of M. J. Meehan & Co.?

Mr. O'BRIEN. I don't recall distinctly any big positions in the last year or year and a half, but there may have been.

Mr. GRAY. We have not been able to get into this and investigate it.

Mr. O'BRIEN. The volume of trading in radio has been very light in the last year or year and a half, so I would not make a very positive statement.

Senator COUZENS. While you were on the floor keeping this book did you ever get any orders from the office to sell long or short radio stock?

Mr. O'BRIEN. You mean now, Senator? Or——

Senator COUZENS. Oh, any time.

Mr. O'BRIEN. Why, yes; we get orders quite frequently from the office.

Senator COUZENS. And so when you are getting orders from Meehan & Co. they also have information as to what this book shows?

Mr. O'BRIEN. No, sir. You mean our office in general would have that information?

Senator COUZENS. You do; yes.

Mr. O'BRIEN. I do; yes.

Senator COUZENS. Well, you are part of the office.

Mr. GRAY. Now, then, unless there are some other questions, I want to direct your attention to this pool again. You know there was such a pool in the office as this New Radio pool?

Mr. O'BRIEN. I knew after it had been formed, the syndicate had been formed.

Mr. GRAY. Yes; and you knew it had operated from what date to what date?

Mr. O'BRIEN. I heard—I should say I did at the time, but I am not familiar with the date.

Mr. GRAY. So that you knew that your orders were coming from the firm of M. J. Meehan & Co. to buy and sell Radio stock during that week between March 13 and March 19, 1929, and from the great volume that it was the operations of this pool, did you not?

Mr. O'BRIEN. No, sir. I would not know that, because the customers of Meehan's had always done a very big business in Radio. It might have been anybody.

Mr. GRAY. When you left your floor you invariably, I suppose, from day to day, had consultations over various matters with different members of your firm?

Mr. O'BRIEN. No.

Mr. GRAY. You never did?

Mr. O'BRIEN. Very, very rarely. And none that I can remember, as a matter of fact.

Mr. GRAY. Ever go to your place of business?

Mr. O'BRIEN. Well, as I described before, to my section of the place of business, and how we worked to straighten out on the floor.

Mr. GRAY. Mr. O'Brien, I want to know whether you say to this committee that M. J. Meehan & Co., of which you were a member, which firm was transacting the business of this pool in stock in which you were a specialist—do you mean to tell this committee that during that entire week you and the other members of the firm who may have been placing the buying and selling orders never consulted; they never asked you anything about the condition of your book from day to day or during any day, and that you never told them anything at all?

Mr. O'BRIEN. Well, as far as I can recall nobody asked for the condition of the book.

Mr. GRAY. Well, if they did not ask, did you give it to them?

Mr. O'BRIEN. No; I did not.

Mr. GRAY. Now let me ask you something: Is it not a fact that in the execution of the orders for this pool on the floor of the stock exchange that matter was simply left to your discretion and you were the one that handled it?

Mr. O'BRIEN. It is not the fact at all.

Mr. GRAY. Who issued the orders in this firm for the selling and the buying of this Radio stock?

Mr. O'BRIEN. I do not know that anyone did.

Mr. GRAY. Well, somebody has to say when you are going to buy it and when you are going to sell it, don't they?

Mr. O'BRIEN. Somebody must have given the order. It originated some place.

Mr. GRAY. Who was it?

Mr. O'BRIEN. I should have imagined that it originated with the managers of the syndicate, so far as I know.

Mr. GRAY. Well, Mr. Bragg says that he was in Florida.

Mr. O'BRIEN. Well, you see, I can not answer, because I can only answer to what you asked me about on the floor. My general knowledge is only concerning specializing and what takes place there. I really don't know anything about running an office, for instance.

Mr. GRAY. Who gave the orders to clean up this pool and bring it up on an even basis?

Mr. O'BRIEN. Well, if I could tell you that, I probably would be able to answer your other question.

Mr. GRAY. Who is the man in your firm that can tell us who handled and gave you orders to buy and sell this Radio stock—who is it—in 1929?

Mr. O'BRIEN. In our firm?

Mr. GRAY. Yes.

Mr. O'BRIEN. Well, I do not believe that anybody in our firm did it. The firm was never a member of the syndicate or managers for a syndicate to my knowledge.

Mr. GRAY. Oh, the firm was the one that originated the syndicate. Why tell me that? They got a 50 per cent of the managers' cut for doing whatever they did do, and we are trying to find out who it was that handled this syndicate. Nobody seems to know.

Mr. O'BRIEN. I don't, sir. I was not in on any conversation regarding a pool, never have been.

Mr. GRAY. I don't know whether you have clearly answered my other question. Are you trying to create the impression with this committee that, though you were the member of the firm of M. J. Meehan & Co. and had inside knowledge of what was on the specialist's book, that your firm was specializing in, that they did not use that information in any manner, shape, or form in the buying and selling of those stocks?

Mr. O'BRIEN. I do not think that they had any use for it; no.

Mr. GRAY. Did they have the information?

Mr. O'BRIEN. Not to my knowledge they never got any information about the book. They didn't get it from me.

Mr. GRAY. I suppose your answer that you knew nothing about the office matters would be the answer that you would make to me if I asked you about who got this \$92,000, who these people were and why it was paid to them and they were not participators in the pool; is that right?

Mr. O'BRIEN. That is right. I would have to answer that way.

Mr. GRAY. And you would have to answer the same way if I asked you about these various transactions that appear to be wash sales?

Mr. O'BRIEN. I don't know anything about that.

Mr. GRAY. You don't know anything about that?

Mr. O'BRIEN. I would not come in contact with any office work at all.

Mr. GRAY. All right. I will say to the committee that we are still working on this and we will find out where those checks went and why they went and we will see the checks and see who indorsed them, and we will know all about it before we get through, but this is as far as we can get in this matter at the moment. That ends all I want to present on the Radio pool, and I will take up something else whenever the committee is ready.

Senator WALCOTT. When will the next meeting be, Mr. Chairman?

Mr. GRAY. I have enough to keep you busy all day to-morrow and all day Saturday?

The CHAIRMAN. I think we can continue this afternoon, and I just told Senator Couzens about it.

Senator COUZENS. Do you want to go on this afternoon?

Mr. GRAY. I would like very much to. In other words, I have a number of witnesses I brought here on some other transactions.

The CHAIRMAN. I do not see how so many Senators can be so far away from the Senate Chamber, so we will meet in the Interstate Commerce Committee room in the Capitol right off the Senate gallery and, in case of a roll call, we can go down and vote and come back for the hearing.

Senator COUZENS. There will be no room except for the reporters.

The CHAIRMAN. Except standing room. That is unfortunate, but it is the only place that is available. We will be there at 3 o'clock.

(Whereupon, at 12.50 o'clock p. m., the committee recessed, to meet in the Interstate Commerce Committee room in the Capitol, at 3 o'clock p. m. of the same day.)

AFTER RECESS

The committee resumed at 3 o'clock p. m., at the expiration of the recess, in the hearing room of the Committee on Interstate Commerce in the Capitol, Senator Norbeck (chairman) presiding.

The CHAIRMAN. The committee will resume. What witness will you call, Mr. Gray?

Mr. GRAY. I want Mr. McCONNACHIE to resume the stand, and I see he is sitting at the table. But I wish to place something on the record.

**TESTIMONY RESUMED OF JAMES F. McCONNACHIE, MEMBER OF
THE FIRM OF M. J. MEEHAN & CO., NEW YORK CITY**

Mr. GRAY. Mr. Chairman, I want to place upon the record, to conclude, one or two things in regard to radio: The fact that the records show that there was outstanding at the time this pool in 1929 was operating, and in which they operated in approximately 1,500,000 shares, a total issue of 13,130,690 shares of stock. It is impossible to determine just what the floating stock was, but they dealt in the period of one week in approximately 12 per cent of the entire outstanding issue of Radio Corporation of America stock.

Now, when I say they dealt in 12 per cent I am taking the figure that they bought, or approximately the figure that they sold; but they bought and sold altogether some 2,900,000 shares of stock of the Radio Corporation of America, or approximately or close to 30 per cent of the entire outstanding issue of stock during that one week's operations.

Now, I want further to put upon the record the substance of some articles that were published, and I will later have the articles themselves, but I have been unable to get them in the limited time at my command; I mean the clippings themselves, and will then put them upon the record, those articles having appeared during the time the pool was operating.

First, on March 2, 1929, immediately after the pool was formed, there appeared in the Wall Street Journal an earnings statement of the Radio Corporation of America, showing that their earnings during 1929 and up to that date were \$21,128,420, as compared to \$10,394,415 in 1927. There is no statement here as to 1928. But this shows a claim of an equivalent to \$15.98 on the common shares as compared with \$6.15 in 1927, after reserves were withdrawn.

On March 9, 1929, in the Wall Street Journal appeared an article:

Radio Corporation of America to extend activity abroad. Corporation is financially better off than ever before in its history. Current assets at end of 1928 total \$55,577,250 and current liabilities \$16,073,015, a ratio of 3½ to 1.

The CHAIRMAN. In other words, a net of around \$40,000,000.

Mr. GRAY. That was on the matter of current liabilities and assets only, and not on the matter of its capitalization.

The CHAIRMAN. All right.

Mr. GRAY. On March 11, 1929, in the Wall Street Journal under the caption *Abreast of the Market*, the following appeared:

Radio.—Radio shares were the sensation of the market last week. The return of an important interest, which sponsored Radio for some time was the signal for a resumption of activity in the issues. What profit taking came into the market was easily absorbed and the spectacular advances attracted the attention not only of traders, but of outsiders, who were looking for a stock indicating a decided upward trend. Radio's business has been expanding and many developments are pending. The new shares, because of their low selling price, are naturally the most attractive to the public.

On March 12, 1929, under the caption *Abrupt Changes* and in a story reporting credit control rumors, the following appeared, and I am quoting it:

Radio Corporation issues again took the lead on the up-side, rising to fresh record levels on the activities of big operators, who have sponsored Radio's market for the last several weeks.

On March 16, 1929, under the caption *Radio Royalties Nearly Doubled* appears a long analysis of the organization and finances of the Radio Corporation of America, in which royalties are set forth as an important factor in the corporation's record showing for 1928. And it says there is further bullish mention of communications, plans, and strides forward in the amusement field.

On March 21, 1929, under the caption *Broad Street Gossip* the following appeared, and I quote it:

It is said that the one million share Radio pool has been terminated with a net profit of five points to the underwriters.

And that you will note is approximately correct.

On March 22, 1929, in the Wall Street Journal, under the caption "*Market comment*," the following appeared:

The large pool in Radio finished letting out its line Tuesday—

And that was on March 19, which was absolutely correct—

and, for the time being at least, has turned its attention to the copper group with most of its buying in Anaconda.

On March 28, 1929, under the caption "*Abreast of the market*," appeared the following:

Interests who had been prominent in the advance of Radio only a few weeks ago when the stock rose to a high about 109 were advising their friends to consider repurchasing around 85.

Just as the evidence I presented this morning indicated that the stock had dropped to 87¾ a few days before that.

When Radio went below that figure on Tuesday—

and I did not come down to that date—

it encountered buying orders which started the recovery in the issue. Market students maintained that the leading interests dominating the movements in

the stock were buying actively around Tuesday's low point. A substantial short interest in the stock has been covering.

And I will say that we are working now on another pool that operated immediately after that, and that put it back from 95 to 113. I am not ready to present that to the committee now, but it will be finished a little later and furnished to the committee.

Senator BROOKHART. Mr. McConnachie, who was T. Clark, who was in this pool?

Mr. McCONNACHIE. I have no knowledge of any of the participants of the pool because I was not with M. J. Meehan & Co. at that time.

Senator BROOKHART. Will the other witness be here, Mr. Gray?

Mr. GRAY. The witness O'Brien was with them, but I wanted to keep Mr. McConnachie for another purpose, and before the noon recess I asked if any member of the committee wanted to ask him any more questions, and they did not. So I relieved Mr. O'Brien. Has he gone, Mr. McConnachie?

Mr. McCONNACHIE. Yes.

Senator BROOKHART. Who was the other witness?

Mr. GRAY. Mr. O'Brien.

Senator BROOKHART. The man who managed the pool while in Florida?

Mr. GRAY. No; that was Tom Bragg.

Senator BROOKHART. Is he here?

Mr. GRAY. No.

Mr. McCONNACHIE. We could probably reach Mr. O'Brien in time to have him here this afternoon if you want him.

Senator BLAINE. Mr. McConnachie, when did you leave the Meehan firm?

Mr. McCONNACHIE. I am still with the Meehan firm.

Senator BLAINE. Were you with them in 1930?

Mr. McCONNACHIE. I was with them in June of 1930.

Senator BLAINE. And you were with them throughout 1931?

Mr. McCONNACHIE. Yes, sir.

Senator BLAINE. Did you participate in any transactions in connection with R-K-O stock?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. None whatever?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. You have no personal knowledge of those transactions?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. Do you have any personal knowledge of the reorganization of R-K-O?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. Who would have personal knowledge of that in the firm of M. J. Meehan & Co.?

Mr. McCONNACHIE. I do not know that anyone in the Meehan firm would have personal knowledge of the R-K-O Corporation.

Senator BLAINE. The Meehan firm had a specialist in R-K-O stock, did it not?

Mr. McCONNACHIE. Yes, sir.

Senator BLAINE. In the fall of 1930 and spring of 1931?

Mr. McCONNACHIE. Yes, sir.

Senator BLAINE. Who was that specialist?

Mr. McCONNACHIE. Mr. George Garlick.

Senator BLAINE. And he would have personal knowledge of stock transactions relating to R-K-O in 1931?

Mr. McCONNACHIE. Yes, sir.

Senator BLAINE. Were you informed that R-K-O was going into a form of reorganization?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. In the fall of 1931?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. But Mr. Garlick would know?

Mr. McCONNACHIE. I do not know that he would know any more in reference to reorganization than I would. But he ran the book in R-K-O.

Senator BLAINE. Would you give us his full name and business address as well as home address?

Mr. McCONNACHIE. I do not know his home address?

Senator BLAINE. Well, give us his business address.

Mr. McCONNACHIE. No. 30 Broad Street, New York City.

Senator BLAINE. He is a resident of New York City?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. I want to say to the committee that, having presented the pool in Radio that operated on the long side of the market, I desire to develop an operation on the short side of the market that Mr. McConnachie may be able to give us some information about, and that I can present certain records.

Mr. McCONNACHIE. Mr. Counsel, can I add something to my statement of a minute ago: I do know this in reference to R-K-O, Radio-Keith-Orpheum: Mrs. Mehan held 20,000 shares of K-L-O preferred, Keith-Albee-Orpheum preferred stock, which cost her in excess of \$2,000,000. This stock was convertible three for one into R-K-O common stock. When the R-K-O Corporation, Radio-Keith-Orpheum Corporation, was organized it took over the Keith-Albee Co., which in turn was a consolidation of the Keith-Albee-Orpheum Circuit.

Keith-Albee took over the Orpheum Circuit, and I believe that sometime during last year Mrs. Meehan sold the equivalent of the common stock that she could convert the K-L-O preferred stock into. In other words, she held 20,000 shares of K-L-O preferred, and she had the privilege to convert those 20,000 shares into 60,000 shares of R-K-O common stock. There being no market, or at least a very dull market, in the preferred stock, I believe she sold 60,000 shares of R-K-O common stock against her 20,000 shares of K-L-O preferred.

Senator BLAINE. Was that before November of 1931?

Mr. McCONNACHIE. I could not tell you what date the sale was made.

Senator BLAINE. The company went through the process of reorganization in November and December of 1931, I understand. Do you recall that?

Mr. McCONNACHIE. I could not tell you the date. I should like to add that those 20,000 shares of K-L-O preferred, and she still holds it to-day, cost Mrs. Meehan over \$2,000,000, while I think the present price is something like \$8 a share.

Senator TOWNSEND. Did you say she sold 60,000 shares against that?

Mr. McCONNACHIE. She did, but later on she bought it back. She still holds 20,000 shares of K-L-O preferred, and at to-day's prices that shows a loss of about \$1,800,000.

Mr. GRAY. You have injected Mrs. Meehan into the picture.

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Isn't it a fact that while this Radio pool was operating, in March of 1929, extensive operations were carried on in the name of Mrs. Meehan individually in Radio besides?

Mr. McCONNACHIE. I am not familiar with that.

Mr. GRAY. You do not know that?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. And, having told this committee that in addition to the profits she made out of the pool which you were relating as an offset to certain losses before the recess, that she made quite a few millions of dollars in her individual account, or either she or Mr. Meehan dealing in her name, at the same time the Radio pool was operating. You do not know that?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. I say to the committee that we are investigating those records at the present time and will be prepared to prove that Mrs. Meehan made as much as the syndicate did. I can not do it to-day, inasmuch as we were not able to get through with our investigation.

Now, Mr. McConnachie, I asked you before recess whether or not you knew about the account No. 815 that belonged to Bradford Ellsworth and Joseph E. Higgins. And I think you told me you knew of such an account.

Mr. McCONNACHIE. I think I told you, Mr. Gray, that I did not know of such an account.

Mr. GRAY. But you did tell me, however, didn't you, that you thought there was in your office an option to purchase Electric Auto-Lite Co. stock. I am referring now to March of 1931.

Mr. McCONNACHIE. As I recall I made the statement that I did know there was an interest of some kind in the office in reference to Auto-Lite.

Mr. GRAY. All right. And you will furnish to the accountants of the committee who will visit you in connection with this matter, all the data you have with respect to that option?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Do you know anything about the price at which the option was taken?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Now I want to ask you about the general practice in connection with options that are given to traders or others on the market. Isn't it a fact that where a trader has an option to buy a certain amount of stock at a fixed price, and within, of course, a certain time limitation, that the first thing he does, if the price is approximately that at which he has his option, to take a short position?

Mr. McCONNACHIE. I have never conducted such a market operation as you term it, and I have never been so intimately associated with others conducting one that I know their methods.

Mr. GRAY. All right. You can not answer that question?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. I will show to the committee by another witness whom I will call in and their transaction, that when a man gets an option on stock, to buy a certain number of shares, say, at 70, and the market is 70 or a little above, he will immediately go out and take a short position by selling a large number of shares short, his intention being that if the market goes up he can furnish the stock, of course, by covering his option, while if the market goes down he covers by covering his short sale and he does not have to bother about the option. So that when he trades in that way he can not lose.

And I suppose, Mr. McConnachie, you will say you do not know anything about transactions in Electric Auto-Lite.

Mr. McCONNACHIE. I do so say.

Mr. GRAY. I am now going to submit to the committee reporter a statement which I will verify by additional evidence at a later time if the committee wants it, whereby we will be able to show that there was an option which the Meehan office had to buy a certain quantity of stock at a certain price. I can not give the committee those figures because this came to me last midnight, but I can show in this connection, in this account No. 815, that Mr. Joseph E. Higgins and Mr. Bradford Ellsworth whom you have heard as one of the managers of the Radio pool, started to sell on March 10, 1931, this stock short, that their sales consisted entirely of short sales, running from March 10 to April 27, which reached the date when they finished finally covering their sales, when they dealt in approximately 94,000 shares, and that they made a profit in that pool of \$35,500; that they distributed out of those gross profits the sum of \$7,102.44 to Collins-Norton Co., of Toledo, Ohio, and to Stewart McNair they gave a check for \$3,551.22, leaving a net profit of \$25,170.88. The details beyond that I can not give the committee at the present time, but our accountants are working on it to-day.

But that is a clear illustration of an option that was taken, which when they took their short position instead of the stock going up, thus giving them an opportunity to exercise their option and make a profit in that way, they abandoned entirely the option, and having taken a short position against the option, covered it by buying as the market went down because at the time when they started to sell short the market was 70%, on March 10, and when they made the final covering on April 7 the market was 52¾.

(The paper handed to the committee reporter by Mr. Gray, is here made a part of the record, as follows:)

GEORGE K. WATSON & Co.—OFFICE MEMORANDUM

File _____.

Date: May 18, 1932.

From: Mr. L. H. Sherbacow.

To: Mr. William Gray.

Subject matter. In re market operation in Electric Auto-Lite Co.

A market operation in Electric Auto-Lite Co. was begun on March 10, 1931, by Bradford Ellsworth operating through the firm of M. J. Meehan & Co. The account through which this operation was run was an account No. 815, it being a joint account of Bradford Ellsworth and Jos. E. Higgins.

It is my belief that this operation was predicated in an option to purchase a block of stock given by the controlling interest of Electric Auto-Lite Co. to Bradford Ellsworth at prices below the then market, but as Mr. Ellsworth.

is reported to be in Canada at this time, it has been impossible to confirm this belief.

The following schedule discloses trades in the stock. At beginning of operation, March 10, 1931, the stock was selling at 71½ per share and at completion, the stock sold at 49 per share, showing a depreciation in price of \$22.50 per share, within 45 days after operations were begun. Complete data concerning this operation was not available.

Transactions in stock

Date	Purchases	Sales
1931		
Mar. 10	28,700 shares, at 70¾	36,700 shares at 71¼.
11	21,900 shares, at 72	25,500 shares, at 73½.
11	1,100 shares, at 72¾	
12	6,100 shares, at 72½	6,600 shares, at 72¾.
12	3,800 shares, at 72	3,600 shares, at 72½.
16	Dividend on 16,800 Eto (short), 3-13; debit, \$24,450.	
16	10,100 shares, at 67¾ to 71	1,900 shares, at 69.
17	4,000 shares at 71½	5,300 shares, at 71¾.
18	3,200 shares, at 71¾	3,100 shares, at 72½.
19	600 shares, at 71½	2,400 shares, at 72.
20	2,600 shares at 72¾	3,400 shares, at 72¾.
22	1,600 shares at 72¾	3,600 shares, at 72½.
26	200 shares, at 70	200 shares, at 70.
30	2,600 shares, at 69	
31	1,200 shares, at 68½	
	On Mar. 31, 6,400 net short position	
Apr. 15	900, at 63½	
16	900, at 62	
17	1,600 at 62	
20	2,000, at 63½	
21	800, at 62¾	
27	1,000 at 62¾	600, at 49.

Total shares purchased, 94,000; total sales, 92,900.

GENERAL COMMENTS

A profit of \$85,000 was sustained in this operation. On the 12th of May, 1931, a check was drawn to the order of Collins-Norton Co. of Toledo, Ohio, amounting to \$7,102.44. On May 24 a check was drawn to the order of Stewart McNair amounting to \$3,551.22, leaving a net profit of \$25,170.88. In examining the account of this operation, I found that there was no money credit in the account at the beginning of the operation.

Mr. McCONNACHIE. May I ask the question: Was that an option of Bradford Ellsworth and Joseph Higgins or an option of M. J. Meehan & Co.?

Mr. GRAY. Either an option of Meehan & Co. which Bradford & Higgins had an interest in, or an option directly to Higgins. We started to work on this yesterday, and this is accurate as far as I have given it to you, and it only came to me last midnight.

Now, unless members of the committee want to ask Mr. McConnachie anything more I am through with him.

Senator GLASS. Mr. McConnachie, for what average period are stocks dealt in on the New York Stock Exchange held?

Mr. McCONNACHIE. I do not think there is an average.

Senator GLASS. I had a chart made a little more than two years ago by an expert in actuarial matters which indicated that 15 years ago the average period was 67 days, but that at the time when the chart was made, or rather for the previous year, it had been reduced to 22 days. What would be the effect of putting a tax on transfers of stocks on the stock exchange which when sold had not been held by the seller at least 60 days?

Mr. McCONNACHIE. What would be the justification for such an act?

Senator GLASS. What would be the effect of it? How much revenue would it yield, a tax of that sort?

Mr. McCONNACHIE. I could not tell you, sir, in dollars and cents, but I do not think there is any question but what it would have the effect of slowing up the business of the exchange.

Senator GLASS. Some of us have thought the only practical way of distinguishing a stock investment from stock gambling would be to introduce the time element. People, in view of at least of some of us, do not invest for a minute, as one witness to-day indicated was frequently done in making sales and transfers. You would not say, I imagine, that a man invest his money for a day, does he?

Mr. McCONNACHIE. No, sir.

Senator GLASS. Nor for a week?

Mr. McCONNACHIE. No, sir.

Senator GLASS. Nor scarcely for a month?

Mr. McCONNACHIE. No, sir. But the effect of that, Senator Glass, if you will permit me to say so, would be to penalize the man for changing his position when he discovers that he has made a mistake.

Senator GLASS. Oh, yes; but that would be a very rare transaction when you take the whole volume of transactions on the stock exchange into consideration. And it would put several billions of dollars into the Federal Treasury, unless stockbrokers should desist from investing for an hour or a day or a week, would it not?

Mr. McCONNACHIE. Senator, I would say that any man who bought stocks within the past two and a half years made a mistake to hold those stocks for one day rather than 30 days in the light of the depreciation in security values during the past two and a half years.

Senator GLASS. Yes; in the light of the formation of pools to send stocks skyrocketing or to send them to the depths. But that was a very exceptional period, was it not?

Mr. McCONNACHIE. Yes, sir.

Senator GLASS. I am talking about the ordinary legitimate transactions on the stock exchange, explained by Mr. Whitney to be the great investment market. If they continued in the same volume as prevailed in 1928-29 it would pretty soon enrich this Government, wouldn't it? We would not have to levy taxes on anything else, would we?

Mr. McCONNACHIE. Well, that depends upon the amount of the tax. But if such a tax were levied along reasonable lines I do not believe it would produce any substantial revenue. And when I say "substantial revenue" I mean many millions of dollars.

Mr. GRAY. Mr. McConnachie, if I may be permitted to ask a question right there, the most of the transactions which took place on the stock exchange during 1928-29 were transactions that were closed out within extremely short periods of time, comparatively speaking, a matter of anything from 5 minutes to 5 or 6 days; isn't that true?

Mr. McCONNACHIE. I think that would be very unlikely.

Mr. GRAY. You think that was unlikely in 1928-29?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. How long do you think, if you can give us any idea of it as an average, was the average time that purchasers of stocks during 1928-29—and you can also answer that with respect of to-day, if you would like to—carried stocks before selling?

Mr. McCONNACHIE. I have never seen such a compilation made.

Mr. GRAY. I have not either, and I will be perfectly frank with you about that.

Senator GLASS. Well, I have had a compilation made as I indicated a moment ago, and I am asking this question because, as will be noted under S. 84, this committee is directed to report to the Senate the desirability of the Government exercising its taxing power with respect to such transfers. That would at least transform the stock exchange from a feverish gambling institution into approximately an investment institution, wouldn't it, at least if the tax were high enough?

Mr. McCONNACHIE. It would unquestionably slow up speculation if you made the tax excessive.

Senator GLASS. Well, if you made it reasonable according to my point of view, and we differ as to the reasonableness of such a tax, but if you would put a pretty stiff tax on it, it would transform the stock exchange into a public market, a public investment market, would it not?

Mr. McCONNACHIE. Anything that you would do to make speculation more expensive would necessarily slow up transactions on the stock exchange.

Senator FLETCHER. What proportion of the business of the stock exchange is of a speculative character and what proportion is really investment marketing of securities?

Mr. McCONNACHIE. I could not say.

Senator FLETCHER. Is the larger proportion of the business that of a speculative character?

Mr. McCONNACHIE. I have never seen any such figures, and I have never attempted to make an estimate, and have never known anyone else to try to do it. I think it would be very difficult if one were to try to do it. They would have to inquire into each transaction in every broker's office.

Senator FLETCHER. In a general way what were your duties as special agent of the Treasury Department?

Mr. McCONNACHIE. To make investigations into the personnel of various Treasury offices throughout the country, to reorganize the service if reorganization was deemed necessary and advisable, and to take charge of a force of men who had to do with the prevention of frauds against the revenue.

Senator GLASS. You think it would not be advisable to attempt that sort of definition or distinction between stock gambling and stock investment?

Mr. McCONNACHIE. I do not think you could very well, Senator, without injuring the investor whom you are attempting to safeguard.

Senator GLASS. My view is that it would protect the investor but would injure the gambler.

Mr. McCONNACHIE. Well, you will note that whenever there is a slow market it has a tendency to move lower, and by affecting prices of securities disastrously to the holder I do not see how you can improve the position of the investor.

Senator GLASS. But a market that sanctions pools such as the one revealed at our hearing this morning means that prices may be lowered or elevated, but in either event it is a fictitious market, is it not?

Mr. McCONNACHIE. I believe that when syndicates are organized they are organized because the members believe that the security is selling for less than its intrinsic value and that a profit can be made through its purchase and sale at values which they feel more commensurate with its worth. You have heard to-day of one syndicate where a profit of some millions of dollars has been derived. But you probably will hear in the course of this investigation of many syndicates where losses of a great many more millions of dollars have been the result of syndicate operations. I have given you a few this morning.

Senator GLASS. Well, that means that syndicates gamble on both sides of the market, doesn't it?

Mr. McCONNACHIE. I have never known or heard of a syndicate being formed to sell stocks short.

Mr. GRAY. I will call Senator Glass's attention to the fact that the recent agreement in Radio authorized them to sell the stock either long or short.

Senator GLASS. And it so happened that they sold it long.

Mr. GRAY. They could handle it better that way.

Mr. McCONNACHIE. But, pardon me, it was a buying syndicate. It was not a short syndicate. It was not a syndicate organized for the purpose of selling the stock short.

Senator GLASS. Well, it was organized for the purpose of advancing the market to a fictitious point, wasn't it?

Mr. McCONNACHIE. No, sir; I would not say so, although as I have previously stated, I am not familiar with that stock. But others who participated in the syndicate, as well as millions of people throughout the United States, had great ideas as to the value of the stock of the Radio Corporation of America. I have heard intelligent people claim that the day would come when power would be derived from air waves, which could be used in the place of power houses. And they had imaginary ideas as to the value of radio stock. But even those who participated in the syndicate, I believe, felt that radio stock was selling for very much less than what it was worth.

Senator GLASS. People who organize syndicates are at liberty individually to buy stocks that they think are going to advance, that they think should advance, but why organize a syndicate if it is not to combine the resources of various members of the syndicate in order to affect the market fictitiously? They do not organize a syndicate based upon the earning capacity of the corporations represented by the stocks in which they deal. They organize a syndicate in order that it may be powerful enough to affect the market, do they not?

Mr. McCONNACHIE. Senator Glass, I do not believe that they organize a buying syndicate unless they have complete confidence that the stock which the syndicate is organized to purchase is worth a great deal more than what they can sell it for.

Senator GLASS. What degree of confidence has a syndicate in a stock when it is buying its own stock and selling at the same time? What is the meaning of that sort of action?

Mr. McCONNACHIE. You will have to ask that question of some of those syndicate managers. I can not answer that.

Senator GLASS. I think I could, and I never was within a thousand miles of a syndicate in my life. [Laughter.]

Senator FLETCHER. Does that radio stock pay any dividends?

Mr. McCONNACHIE. No, sir.

Senator FLETCHER. Do you know when, if ever, it has paid a dividend?

Mr. McCONNACHIE. I do not think it has ever paid a dividend. But if you will remember the earnings report as Mr. Gray cited, it shows something like \$16 a share, and that \$16 a share was the earnings per share going up from practically nothing. That is, the earnings previous to that time had been very small. So if it could earn \$16 a share that indicated its future possibilities.

Mr. GRAY. No; I did not state that. What I said was this: I read extracts from what newspaper articles set forth. I did not say anything as a statement of fact myself, nor did I submit it as a fact. I submitted it as newspaper puffing while the pool was on.

Mr. McCONNACHIE. Well, I believe that is a fact.

The CHAIRMAN. How old was the Radio Corporation of America at the time?

Mr. McCONNACHIE. What was that?

The CHAIRMAN. How many years had this corporation operated prior to the time when you claim they had earnings of \$16 per share?

Mr. McCONNACHIE. Oh, I think the Radio Corporation of America has been in existence for over 10 years.

The CHAIRMAN. And they have not paid out anything substantially by way of dividends, have they?

Mr. McCONNACHIE. I do not think they have ever paid a dividend on the common stock.

The CHAIRMAN. Even if this report were true of their earnings, if you were to spread it over a 10-year period it would be 1½ per cent a year during the time they have been operating.

Mr. McCONNACHIE. If that had been their total earnings; yes. But I believe they had earned a small amount annually, but a very small amount as compared with the earnings at that particular time.

The CHAIRMAN. But they had gone on for 10 years without paying any dividend?

Mr. McCONNACHIE. Yes, sir.

The CHAIRMAN. And they started out without any physical property, didn't they?

Mr. McCONNACHIE. Well, I have never examined their balance sheet.

The CHAIRMAN. I think that was the evidence given here this morning.

Mr. McCONNACHIE. I have never examined the balance sheet of the Radio Corporation of America and could not state about their financial condition.

The CHAIRMAN. You do not know where their earnings, if any, came from?

Mr. McCONNACHIE. No, sir.

The CHAIRMAN. They did not come from dealing in stocks, did they?

Mr. McCONNACHIE. I do not believe that any of the Radio Corporation's earnings came from stocks.

The CHAIRMAN. Did they conduct any business?

Mr. McCONNACHIE. Well, they owned a communications system, and radio broadcasting. They owned the Marconi wireless system. Then they acquired the Victor Corporation.

The CHAIRMAN. Did they own them or did they have an option on them or a contract for them?

Mr. McCONNACHIE. No, sir. I understand they owned the radio broadcasting and the Marconi wireless system.

The CHAIRMAN. Had they paid for them?

Mr. McCONNACHIE. Yes, sir.

The CHAIRMAN. Then the testimony that we had this morning to the effect that they did not have much in the way of physical properties was wrong.

Mr. McCONNACHIE. Sir?

The CHAIRMAN. The testimony that we had this morning, then, was wrong?

Mr. McCONNACHIE. I did not hear that part of the testimony given this morning.

The CHAIRMAN. But the total value of the stock of the Radio Corporation at one time exceeded a billion dollars in market value, didn't it?

Mr. McCONNACHIE. Well, if it was selling above \$100 a share and if there were a million shares—

Senator TOWNSEND (interposing). It was 13,000,000 shares.

Mr. McCONNACHIE. Well, that would make it \$1,300,000,000.

The CHAIRMAN. What do you claim the physical properties of the Radio Corporation of America to be in the matter of value?

Mr. McCONNACHIE. I have no idea. I have never examined the balance sheet of the Radio Corporation of America.

The CHAIRMAN. Do you know where we can get that information?

Mr. McCONNACHIE. Yes, sir.

The CHAIRMAN. From the man who took the ship last night?

Mr. McCONNACHIE. Well, Mr. Chairman, since you make that statement, I should like to say that on last Saturday, at Mr. Gray's request, I called to see him at his office, and he told me that he should like to have Mr. Meehan as a witness before this committee to-day. I told him that I would see Mr. Meehan, and I not only saw Mr. Meehan, but I saw the three physicians attending him, and all three physicians were unanimous in their opinion that Mr. Meehan was in no physical condition to be present at to-day's hearing.

The CHAIRMAN. It might have been pretty hard on a healthy man, I judge.

Mr. McCONNACHIE. Now, I will say that Mr. Gray has seen Mr. Meehan. He has talked to him at great length, and he is almost in as good a position as a physician to pass upon Mr. Meehan's physical condition. I again called on Mr. Gray on Monday and told him what those doctors had advised me in reference to Mr. Meehan's health, and Mr. Gray was readily able to understand from the impression he had gained at his interview that the physicians' statements were 100 per cent correct. And Mr. Gray—

The CHAIRMAN (interposing). Well, now—

Mr. McCONNACHIE (continuing). Pardon me just for a moment. **Mr. Gray** then said that under the circumstances he would not call **Mr. Meehan**, would not insist upon his being present to-day.

The CHAIRMAN. But to-day we are told what nobody knows but this man and he has gone away. That is what we object to. Every member of this committee now knows that. And if the members of the committee had known it at the time, they would have wanted him to be present.

Mr. GRAY. The committee will understand that I released **Mr. Meehan** from being here to-day. While he was not subpoenaed I did know that he was sick, and I did tell **Mr. McConnachie** on Monday that I would not subpoena him to be here to-day. I did release him as to this appearance to-day although he had not been subpoenaed. But I did not say to him that I would not expect **Mr. Meehan** to be present on another day, at a subsequent meeting of the committee. Of course, I had no information that **Mr. Meehan** was going to Europe. Nothing of the kind was said to me. And not for a moment would I have said, although I had no official control of him because of the fact that he had not been subpoenaed, not for a moment would I have agreed nor did I agree that he should be released as to his presence before the committee at another time.

Senator GLASS. It is an unhappy circumstance that he should have gone to Europe the night before this committee convened.

Senator BLAINE. When does **Mr. Meehan** expect to return?

Senator GLASS. If **Mr. Meehan** had conferred with me on the subject I would have advised him to remain over for several days anyhow.

Mr. McCONNACHIE. And I am very sure that he would, in spite of his physical condition, had he known that he was desired, that his presence was desired. His condition is not good, and I do not think that he should be asked to attend.

Senator GLASS. I am not undertaking to suggest that **Mr. Meehan's** condition is good, though sometimes I have very little confidence in certificates from physicians. I have seen the fraudulent nature of some of them. But I think it was a very unhappy circumstance for **Mr. Meehan** that he should have left the night before this committee convened to resume its stock market inquiry.

Senator BLAINE. When is he expected to return?

Mr. McCONNACHIE. Well, the doctors ordered him away for a complete rest.

Senator BLAINE. For how long a time?

Mr. McCONNACHIE. They told him he should stay away for some months.

Senator BLAINE. And that would mean two months or possibly three months?

Mr. McCONNACHIE. I would say two months; yes, sir.

Senator GLASS. I have had physicians to order me to stay away from my duties as Senator for the last three months, but I did not stay away.

Mr. McCONNACHIE. Well, **Mr. Senator**, if you will permit me to say so, if **Mr. Meehan** were in good physical condition he would certainly be present here to-day, and nothing in the world could have prevented him from being present if he had known you gentlemen wanted him to be present.

Senator GLASS. I accept that in good faith, but I still hold that he made a mistake in going away under the circumstances.

Senator FLETCHER. I want to suggest that we get on with the hearing. We have disposed of the case of Mr. Meehan, and he is now out on the Atlantic Ocean. So, let us get along.

Mr. GRAY. Mr. McConnachie, you do not mean to say that Mr. Meehan, Mr. Braggs, Mr. Ellsworth, or any of the members of this syndicate made an investigation of the Radio Corporation of America prior to the time of going into this pool, do you? Please answer that without making a speech to the committee.

Mr. McCONNACHIE. Mr. Gray, you are asking me a question about happenings as of a time when I was not there.

Mr. GRAY. But you made the suggestion in the matter of pool participants that they always look into these things and know that the thing is a good thing and that they are going to make money. You do not suggest that these gentlemen looked into the Radio Corporation of America, that they investigated it?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Then did they know that the Radio Corporation was doing the amount of business in 1929, up to the point where they went into that pool, that practically up to that part and for the rest of the year they just made \$1.58 a share during 1929? Do you know that that is so?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Well, that is a fact from statistical records, and that they made 2 cents a share in 1930, and that they had a deficit of 34 cents a share in 1931. Do you know that to be so?

Mr. McCONNACHIE. No, sir; I do not.

Mr. GRAY. All right. Those are figures taken from the statistical records.

Mr. McCONNACHIE. Well, they could not know in 1929 what business Radio Corporation would do in 1930 or 1931.

Mr. GRAY. No. But your pool operated in March of 1929. Do you know what, if any, investigation was made with reference to the earnings for the first quarter of 1929?

Mr. McCONNACHIE. I do not, but I assume they would know.

Mr. GRAY. Well, we will pass it at that. That is all that I want to ask this witness.

The CHAIRMAN. I must now go down to the floor of the Senate in order to make a short speech, and I will ask Senator Brookhart to preside.

Mr. GRAY. Unless the members of the committee want to ask you some more questions you are through for the present, Mr. McConnachie, but you are not excused.

Mr. McCONNACHIE. Then I can go home.

Mr. GRAY. So far as I am concerned you are excused for the present, but you are not finally excused.

Senator BROOKHART (presiding). Who will you have next, Mr. Gray?

Mr. GRAY. I will call Mr. Weeks.

Senator BROOKHART. Mr. Weeks, you will please stand, hold up your right hand, and be sworn: You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, re-

garding the matter now under investigation by the committee, so help you God?

Mr. WEEKS. I do.

TESTIMONY OF JOHN L. WEEKS, MEMBER OF THE FIRM OF LUKE, BANKS & WEEKS, NEW YORK CITY

Senator BROOKHART. What is your residence address?

Mr. WEEKS. Englewood, N. J.

Mr. GRAY. I am addressing this testimony to the General Asphalt Co. pool. You are a member of the firm of Luke, Banks & Weeks, brokers and members of the New York Stock Exchange, are you not?

Mr. WEEKS. Yes, sir.

Mr. GRAY. And that firm of course is a partnership?

Mr. WEEKS. Yes, sir.

Mr. GRAY. How long has it been in existence?

Mr. WEEKS. About 23 or 24 years.

Senator BROOKHART. And that firm is located where?

Mr. WEEKS. No. 14 Wall Street, New York City.

Mr. GRAY. How long have you been in that firm?

Mr. WEEKS. Ever since it was started.

Mr. GRAY. Now, you were on the board of the General Asphalt Co. were you not?

Mr. WEEKS. I am.

Mr. GRAY. You are still on the board?

Mr. WEEKS. Yes, sir.

Mr. GRAY. You are a director of the General Asphalt Co.?

Mr. WEEKS. Yes, sir.

Mr. GRAY. How long have you been on that board?

Mr. WEEKS. I think about five years, four or five years.

Mr. GRAY. In May of 1929 you were on the board of the General Asphalt Co., were you not?

Mr. WEEKS. I was.

Mr. GRAY. And in May of 1929, or to be exact, on May 15, 1929, Luke, Banks & Weeks, a brokerage firm and members of the New York Stock Exchange, sent out to various people an invitation to join in a pool in the buying and selling on both the long and short sides, the stock of the General Asphalt Co., did they not?

Mr. WEEKS. They sent out a participation of the syndicate which was called a group. It was not called a pool.

Mr. GRAY. It was the same thing that we call a pool, was it not?

Mr. WEEKS. Yes, sir; to buy. There is a word in the syndicate agreement, which was copied after the general forms of syndicate agreements.

Mr. GRAY. And it got in that agreement by mistake?

Mr. WEEKS. No; not at all. It got in there to protect the managers in case they made a mistake.

Mr. GRAY. In other words, if the managers of the pool made the mistake of operating on the long side of the market they were given authority by the pool agreement to operate on the short side in event of the stock going down and they thinking it advisable to do so, is that correct?

Mr. WEEKS. Mr. Gray, do you want a really correct answer to that question?

Mr. GRAY. I want you to answer my questions, and of course I want a correct answer.

Mr. WEEKS. No; that is not correct, because in a lot of these groups you distribute stocks that you buy to the various members. But you still retain control over it; they carry it themselves rather than you. Therefore, if you sell 500 shares the syndicate may be long 40,000 or 50,000 shares, and you sell 500 shares in the market but you do not call on them all for their proportion. You are technically short that, although you are not short that at all. That is the true reason why it was put in. The syndicate was formed to buy stock and carry the stock.

Mr. GRAY. I now call the committee's attention to the fact that this invitation to participate is dated May 15, 1929, and starts out by saying:

We are forming a group to underwrite, purchase, sell and generally deal in shares of the common stock of the General Asphalt Co., a corporation organized under the laws of New Jersey—

And so on.

Then it gives the number of shares of the common stock of the company for which the group was formed as to which it may at any time be committed, including any underwriting, and that it may be either for long or short account, and that it shall not exceed 150,000 shares. It then follows in the usual form, and I am handing this to you to ask you whether or not that is a correct copy of one of the original invitations that you believe was sent out by your firm, Luke, Banks & Weeks, inviting people to participate in that pool.

Mr. WEEKS. That is.

(The paper referred to was marked "Committee Exhibit No. 4, May 19, 1932," and is as follows:)

GENERAL ASPHALT CO., STOCK GROUP,
May 15, 1929.

DEAR SIR: We are forming a group to underwrite, purchase, sell and generally deal in shares of the common stock of the General Asphalt Co., a corporation organized under the laws of New Jersey (herein termed company), in which we will participate, and of which we are to be the managers. The maximum number of shares of common stock of the company for which the group may at any time be committed, including any underwriting, and either for long or short account, shall not exceed 150,000 shares.

We have reserved for you, subject to your immediate acceptance being received by us, a participation in this group of _____ shares as your proportionate share of the maximum of 150,000 shares. Each participant shall share in the net profits or the net losses of the group, in the proportion which the number of shares subscribed for by him bears to 150,000.

Participants shall pay \$15 per share on the number of their respective participations at the time this agreement is signed, and the balance or any part thereof when called upon by the managers, whether at or before or after the termination of the group, and without reference to the receipt or possession by the managers or by the participants of any of such shares.

We shall have full power to underwrite, subscribe for, purchase, sell, repurchase, resell, and generally deal in the shares of common stock of said company or rights to subscribe thereto, at such prices and upon such terms, and to pay such commissions for effecting sales or purchases for the account of the group as we may deem advisable, and may ourselves charge as an expense to the group the regular New York Stock Exchange commissions for sales or purchases effected by us as brokers, which we are hereby authorized to do. Luke Banks & Weeks, as a partnership, may deal with themselves as managers in the sale or purchase of shares and may profit from sales to or purchases from the group without accountability to the group members, provided, however, that any purchase from or sale to Luke Banks & Weeks as a partnership

shall be at a price not less advantageous to the group than the market price current at the time of any such purchase or sale.

We shall have sole direction and management of the group with full power to appoint and employ agents and brokers and may delegate to them or either of them any of our powers or duties hereunder, and shall carry on the same in such manner as we may deem advisable, and shall not be liable under any of the provisions hereof nor for any matter connected herewith, except for want of good faith. No obligations, not expressly assumed by us under this agreement, shall be implied therefrom.

We shall have the right to borrow money, either from ourselves or others, for the account of the group, and as security for any loan or loans so made, to assign and pledge any shares of common stock of the company held for the account of the group or any of the obligations of the participants hereunder, upon such terms and conditions as we shall deem for the best interests of the group.

Nothing herein contained shall constitute the participants partners with the managers or with one another, nor render them liable to contribute more than their ratable amount, nor render the managers liable for the subscription of any participant. Any loss suffered by the group through the failure of any participant to carry out his obligations hereunder shall be charged as a loss to the entire group. The managers may be participants in this group, and to the extent of such participation or reservation by them, shall participate in the profits or losses of the group upon the same basis as other participants. The managers may in their discretion permit substitution of participants.

All expenses incurred in connection with this group, including the managers' compensation and attorneys' fees, shall be charged against the group.

We shall receive for our services as managers of the group, 10 per cent of the net profits of the group.

Participants shall share pro rata, after allowing for expenses of the group, in the net profits or net losses. Apportionment and distribution by the managers of profits or losses, after charging all expenses, shall be conclusive upon the group, as shall be the written statement of the managers of the group.

The firm of Luke Banks & Weeks is a copartnership, and in case of any change in the firm, the firm as from time to time constituted shall continue as managers with all the powers, rights and title vested in the present firm as the managers hereunder, without further act or assignment.

The group will expire at the close of business May 15, 1930, unless sooner terminated by us, but may be extended by us from time to time upon notice to the participants for a period or periods not extending beyond May 15, 1931.

Any notice hereunder to participants shall be deemed to have been duly given if mailed or telegraphed to the participants, directed to the addresses furnished by them, or if none is furnished, directed in our care.

This letter may be executed in several counterparts, each of which when so executed shall be deemed to be an original, and such counterparts together shall constitute but one and the same instrument, and the terms hereof shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors, and assigns of the parties hereto.

Please advise us of your acceptance of this participation on the terms stated, by signing the form set forth on the inclosed duplicate of this communication.

Yours very truly,

_____, *Managers for the Group.*

Messrs. LUKE BANKS & WEEKS.

DEAR SIR: I hereby accept the participation of _____ shares of common stock of General Asphalt Co. under the terms and conditions set forth above.

Name _____

Address to which all notices are to be sent _____

MAY --, 1929.

MR. GRAY. Now, Luke Banks & Weeks, a brokerage firm of which you were a member, sent the invitation out, didn't they?

MR. WEEKS. Yes, sir.

MR. GRAY. And you, John L. Weeks, a member of that brokerage firm, managed the pool, didn't you?

MR. WEEKS. I did when I was there.

Mr. GRAY. You were the technical manager, at any rate?

Mr. WEEKS. I formed the pool myself. I invited those people personally to go in. I did not mail out any of these certificates.

Mr. GRAY. Oh, no. Of course, your clerks did that.

Mr. WEEKS. No; I saw to that myself, personally. There were only about 20 given out.

Mr. GRAY. I will get into who is in it in just a moment. Did you get any management fee?

Mr. WEEKS. No; none except the regular stock exchange commission.

Mr. GRAY. In other words, your house received the commissions?

Mr. WEEKS. Yes.

Mr. GRAY. That pool operated for how long?

Mr. WEEKS. Two years.

Mr. GRAY. Now among your participants of the pool was the firm of M. J. Meehan & Co.; is that right?

Mr. WEEKS. Yes, sir.

Mr. GRAY. The firm of Jesup & Lamont; is that right?

Mr. WEEKS. Yes.

Mr. GRAY. The firm of J. G. Mayer & Co.; is that right?

Mr. WEEKS. Yes.

Mr. GRAY. And they were all stock-exchange houses and members of the stock exchange in New York; that is correct, isn't it?

Mr. WEEKS. Yes.

Mr. GRAY. And among the other participants was Horatio G. Lloyd; is that true?

Mr. WEEKS. He was one of them.

Mr. GRAY. And who was he?

Mr. WEEKS. He was a partner in Drexel & Co. in Philadelphia.

Mr. GRAY. And he was the chairman of the executive committee of General Asphalt Co. also, wasn't he?

Mr. WEEKS. He was, I think, at that time. He has not been for the last two years.

Mr. GRAY. Well, I am talking about when this pool was formed and when he became a participant.

Mr. WEEKS. I think he was. Before that time anyhow. I think he was at that time.

Mr. GRAY. Now going down this list of names, out of 150,000 shares Thomas Cochran had 35,000. Who was he?

Mr. WEEKS. He is a customer of ours.

Mr. GRAY. Just a customer?

Mr. WEEKS. Well, I mean—

Mr. GRAY. Is he connected with any other brokerage house?

Mr. WEEKS. Yes. He is a partner in J. P. Morgan.

Mr. GRAY. Why didn't you say that?

Mr. WEEKS. If you had asked me for it I would have done so.

Mr. GRAY. Well, you understood what I meant. Cochran was a partner in J. P. Morgan & Co., a banking house, and he had 35,000 shares. M. J. Meehan & Co. had 30,000 shares?

Mr. WEEKS. That is correct.

Mr. GRAY. Horatio G. Lloyd, chairman of the executive committee of the General Asphalt Co. had 20,000 shares. Correct me if I am wrong in any of these figures.

Mr. WEEKS. I gave you those figures.

- Mr. GRAY. William G. Skelly. Who was he?
- Mr. WEEKS. President of the Skelly Oil Co.
- Mr. GRAY. Was he on the board of directors of the General Asphalt Co.?
- Mr. WEEKS. No.
- Mr. GRAY. Hold any official position there?
- Mr. WEEKS. No.
- Mr. GRAY. And he had 10,000 shares?
- Mr. WEEKS. Yes.
- Mr. GRAY. S. R. Guggenheim had 10,000 shares. Who is he?
- Mr. WEEKS. Well, he is a copper man in New York.
- Mr. GRAY. Now Jesup & Lamont we have already referred to. They had 10,000 shares. Now, Luke, Banks & Weeks had 10,000 shares. That is your brokerage firm. Who were you agents for?
- Mr. WEEKS. We took that for ourselves personally and for our immediate families.
- Mr. GRAY. That is, the members of the firm and their families had an interest in this?
- Mr. WEEKS. Yes.
- Mr. GRAY. Bonbright & Co. Who were they?
- Mr. WEEKS. A bond house in New York.
- Mr. GRAY. Robert C. Ream. Who is Ream?
- Mr. WEEKS. Son of Norman C. Ream. Railroad man.
- Mr. GRAY. And James H. Barr had 3,000 shares. Who is he?
- Mr. WEEKS. Chairman of the board of the National Supply Co.
- Mr. GRAY. Who is Joseph D. Gengler with 1,000 shares?
- Mr. WEEKS. Member of the New York Stock Exchange.
- Mr. GRAY. Lubawee Corporation was formed for trading in stocks, and the Lubawee—Lu-ba-wee was a combination of Luke, Banks & Weeks?
- Mr. WEEKS. Yes; Luke, Banks & Weeks.
- Mr. GRAY. That is another member of this syndicate?
- Mr. WEEKS. Of a thousand shares.
- Mr. GRAY. Yes; 1,000 shares.
- Mr. WEEKS. Yes.
- Mr. GRAY. Who is the Esco Corporation?
- Mr. WEEKS. That is a corporation that belongs to Ernest Stauffen, I think.
- Mr. GRAY. Any connection with Luke, Banks & Weeks?
- Mr. WEEKS. None whatever.
- Mr. GRAY. All right. Who is the Orba Corporation? That is C. A. Corliss, isn't it?
- Mr. WEEKS. Yes.
- Mr. GRAY. Who is Corliss?
- Mr. WEEKS. A chocolate man in New York. Lamont, Corliss & Co.
- Mr. GRAY. Yes. Who is the Rondale Corporation?
- Mr. WEEKS. Rondale is Stephen Leonard.
- Mr. GRAY. Who is Leonard?
- Mr. WEEKS. Leonard is a merchant uptown. I think he has a dry-goods store.
- Mr. GRAY. Now, they use these names for trading in stocks, don't they? These corporations' names?

Mr. WEEKS. No; that is the name they give us. Evidently it is a corporation name.

Mr. GRAY. Yes.

Mr. WEEKS. And as far as we know that they have their affairs in. Maybe a family owns its stock or something like that. I don't know.

Mr. GRAY. Who is Theodora Cochran?

Mr. WEEKS. That is my partner's wife. Williams Cochran's wife.

Mr. GRAY. Who?

Mr. WEEKS. Williams Cochran's wife.

Mr. GRAY. You have a partner in your firm named Williams Cochran?

Mr. WEEKS. Yes. Williams Cochran.

Mr. GRAY. Now, prior to 1929 the General Asphalt Co. never issued any dividends, did it?

Mr. WEEKS. No; they never paid dividends.

Mr. GRAY. And they had outstanding certain bonds and certain preferred stock; isn't that true?

Mr. WEEKS. That is true.

Mr. GRAY. What was done in the early part of 1929 or at any time in 1929 with respect to those bonds and that preferred stock?

Mr. WEEKS. Why, the company called the bonds. They called the bonds for payment.

Mr. GRAY. When?

Mr. WEEKS. In 1929. I have a letter here that gives the exact date. October 1, 1929.

Mr. GRAY. And at whose suggestion on the board were those bonds called?

Mr. WEEKS. At the suggestion of Mr. Sewall, the president of the company.

Mr. GRAY. Not at your suggestion?

Mr. WEEKS. No.

Mr. GRAY. And you had not suggested it originally?

Mr. WEEKS. No.

Mr. GRAY. You mean to tell me, Mr. Weeks, that in my office in New York City yesterday you didn't tell me that the conversion of those bonds and the conversion of the preferred stock into common stock was done at your suggestion to the board?

Mr. WEEKS. I agreed to it.

Mr. GRAY. Didn't you tell me yesterday that it was your initiative, that you made the suggestion?

Mr. WEEKS. I never made the suggestion to the board.

Mr. GRAY. I didn't ask you whether you made the suggestion to the Board. I am asking you right now this question, whether in my office in New York yesterday you didn't tell me that the suggestion with respect to the conversion of those bonds and that preferred stock was made by you to the board of directors? Now did you or didn't you?

Mr. WEEKS. I didn't intend to, if you understood it that way; no.

Mr. GRAY. It is not a question of what I understood. I am asking you whether, in plain language—

Mr. WEEKS. No.

Mr. GRAY (continuing). Just as I have indicated, you didn't tell me that?

Mr. WEEKS. No.

Mr. GRAY. All right. Then you made no such suggestion to the board?

Mr. WEEKS. No.

Mr. GRAY. Did you suggest the conversion of the preferred stock?

Mr. WEEKS. I did.

Mr. GRAY. Yes. But not the bonds?

Mr. WEEKS. Not the bonds.

Mr. GRAY. Why did you suggest the conversion of the preferred stock?

Mr. WEEKS. Because the company had earned a great deal of money for some time, had earned surplus around \$7,000,000, and there was quite a demand for the stock on the market, and I thought it was a good time to get rid of the preferred stock.

Mr. GRAY. What was the set-up, do you remember, just before that, as to the bonds and the preferred stock and the common?

Mr. WEEKS. Well, it is right in that letter, Mr. Gray.

Mr. GRAY. Do you mean that syndicate—

Mr. WEEKS. No; that letter.

Mr. GRAY. This letter?

Mr. WEEKS. That you have not seen. I got that yesterday after I came back.

Mr. GRAY. All right; let me see the letter. I think this should be read into the record. It is dated August 27, 1929, and it is signed by Arthur W. Sewall as president of the General Asphalt Co., and is as follows:

GENERAL ASPHALT Co.,
Philadelphia, August 27, 1929.

To all Preferred and Common Stock Holders of General Asphalt Co. and Holders of Its 6 Per Cent 15-Year Sinking Fund Convertible Gold Bonds:

For some time past the board of directors of your company has been giving consideration to the question of dividends on the common stock. The earnings of the company, as you know, have been substantial, but it has been necessary to use them for corporate purposes because of the financial structure of the company. Its outstanding bonds and its preferred stock are both convertible into common stock, thus restricting the issuance of additional stock for capital purposes. However, the continued turning back of earnings into the business has resulted in building up a strong corporate position and has made it possible for the company to now simplify its financial structure with a view to initiating dividend payments on the common stock.

To accomplish such simplification it is proposed that the entire outstanding issue of 6 per cent convertible bonds be called for redemption on October 1, 1929, the next interest date. It is also proposed to call for redemption on December 23, 1929, the entire outstanding issue of preferred stock. The retirement of the above issues will leave only the common stock to represent the assets of the company and to share in its earnings.

To provide funds for the redemption of such bonds as are not converted, rights to subscribe to additional common stock at \$50 per share will be offered to common-stock holders of record on October 23, 1929, in proportion to their then holdings. The conversion of the preferred stock and the subscription to the common stock will be underwritten by the company's bankers, Messrs. Drexel & Co.

Your board of directors has also thought it advisable to segregate into a new corporation to be organized to hold them, the company's oil interests in western Venezuela or other such properties as may hereafter be acquired; the entire capital stock of which new corporation will be placed in the treasury of the company.

A special meeting of the stockholders, notice of which will be mailed, is being called to consider the steps above outlined. At this meeting the stockholders will be asked to approve changing the common stock from a par value

of \$100 per share to no-par value, the new shares to have no preemptive subscription right to additional issues of stock of any class. They will also be asked to increase the authorized new common stock to 1,000,000 shares no-par value.

The above plan has the unanimous approval of your board of directors.

Respectfully submitted.

ARTHUR W. SEWALL, *President.*

Mr. GRAY. That letter doesn't answer my question. What was the set-up? What was the amount of bonds outstanding?

Mr. WEEKS. I think there were about \$5,000,000 bonds outstanding. I was not in favor of retiring the bonds.

Mr. GRAY. I didn't ask you whether you were in favor of it. I asked you what was the set-up?

Mr. WEEKS. I forget the number of shares, but I think—doesn't that letter say how many shares there are?

Mr. GRAY. No; it does not.

Mr. WEEKS. I haven't got a statement of it, but I think—

Mr. GRAY. All right. Now, did you think when you organized this pool on May 15, 1929, that this plan was going to be adopted by the board of directors?

Mr. WEEKS. No.

Mr. GRAY. You did know that this company never paid a dollar of dividends, didn't you?

Mr. WEEKS. Yes.

Mr. GRAY. And you did take into the pool the chairman of the executive committee, and you on the board went into the pool?

Mr. WEEKS. Yes.

Mr. GRAY. And as a matter of fact this plan was adopted, these bonds were called, these stocks were converted, and immediately after the meeting, at which the conversion took place, the board of directors met and declared a dividend of \$4 a share, didn't they?

Mr. WEEKS. No; I think they declared a dividend of \$1 a share.

Mr. GRAY. You think they did. Well, they put that dividend on a \$4 a year basis maybe, and declared a dividend of a dollar for the quarter.

Mr. WEEKS. It was declared as a dividend particularly, as an initial dividend of \$1.

Mr. GRAY. And when was that? What part of 1929?

Mr. WEEKS. In November, I should say.

Mr. GRAY. Right after this plan was adopted with respect to the conversion?

Mr. WEEKS. Well, that letter was dated August 27, wasn't it?

Mr. GRAY. That letter is dated August 27, but it refers to a meeting as of a later date, some time in October.

Mr. WEEKS. Well, that was when the plan went into effect, and after the conversion of all the obligations of the company, when they were out of the way, were retired, any senior obligations, then they paid an initial dividend.

Mr. GRAY. Yes.

Senator FLETCHER. How did you manage to convert \$5,000,000 of bonds and the preferred stock which you say you do not know what it amounted to?

Mr. WEEKS. We didn't convert the bonds. We paid the bonds off at 105 and interest. We took that money out of the treasury.

Senator FLETCHER. Did you do that out of the sale of stock?

Mr. WEEKS. No. We had an earned surplus of about \$7,000,000. The Asphalt Co. is about 35 years old. It had earned money, a little bit, over a period of time, for years, and it never was paid out in dividends. It was always set up in its surplus.

Senator FLETCHER. And so you bought the bonds out of the surplus? And the preferred stock too?

Mr. WEEKS. No; we called the preferred stock at 110. The stockholders had the privilege of converting it into a share and a half of common or accepting \$110 in cash for it. But they all converted it except 200 shares.

Senator FLETCHER. One million was that new issue of common stock?

Mr. WEEKS. No; only issued about 30,000 shares to do that, because the whole amount of the Asphalt stock outstanding to-day is 413,000 shares. There are only 413,000 shares outstanding to-day after converting the preferred stock and retiring the bonds, \$5,000,-000 bonds.

Senator FLETCHER. The letter says it is proposed to issue 1,000,000.

Mr. WEEKS. Well, the other is in the Treasury. It has never been issued. It is in the Treasury, you see.

Mr. GRAY. Now, the subscriptions to this pool—you correct me if my figures are wrong—

Mr. WEEKS. Yes.

Mr. GRAY (continuing). Were \$6,000,000; is that right?

Mr. WEEKS. Approximately I would say that is right. I have given you those figures. I haven't got them.

Mr. GRAY. Now, the pool, as a matter of fact, operated from May 17, 1929, until May the 15th, 1931; is that correct?

Mr. WEEKS. Yes.

Mr. GRAY. I say to you that these figures I am giving you are figures taken from your books.

Mr. WEEKS. That is right.

Mr. GRAY. And during that period of time, a period of approximately two years, you have just told Senator Fletcher the amount outstanding, your pool dealt in one-half a million shares of stock; isn't that correct?

Mr. WEEKS. You have those figures.

Mr. GRAY. You will accept that figure as correct?

Mr. WEEKS. Yes; I will accept that figure as correct if the figures are taken from my figures.

Mr. GRAY. Now, as a matter of fact you did operate at a loss; that is correct, isn't it?

Mr. WEEKS. Yes; we lost.

Mr. GRAY. And you distributed your 132,000 shares of which you were long in May, 1931?

Mr. WEEKS. That is right.

Mr. GRAY. And in order to take that up there was some additional money put in, amounting to \$1,369,292.27?

Mr. WEEKS. Yes; that is right.

Mr. GRAY. Making a total investment of \$7,369,292.27, leaving, however, for distribution, those 132,000 shares of long stock among

your participants in accordance with the proportion of their holdings?

Mr. WEEKS. Yes.

Mr. GRAY. That is the way it was wound up, wasn't it?

Mr. WEEKS. Yes.

Mr. GRAY. Now, you were at various times in the operation of that pool in a very favorable position; that is true, isn't it?

Mr. WEEKS. No; I don't think we ever had much of a profit in it at any time at all.

Mr. GRAY. Do you know what the average prices were at which you bought this stock?

Mr. WEEKS. We started buying the stock around 78 to 81.

Mr. GRAY. Yes?

Mr. WEEKS. There is where we started buying the stock. And we bought most of the stock that we had for the first six months at around 80. I think we bought around 40,000 shares to start off with. That averaged us around \$80 a share. And then we never bought any more stock until later on when it went down lower than that price, so that we finally ended up with an average of about 59. All the stock cost us 59.

Mr. GRAY. As a matter of fact your record shows an average price of 55.79.

Mr. WEEKS. Is that it?

Mr. GRAY. You will accept that figure as correct?

Mr. WEEKS. I have given you the correct figures.

Mr. GRAY. As a matter of fact, in 1929 the price went to 94¾ before the break in 1929 came; that is true, isn't it?

Mr. WEEKS. That is true.

Mr. GRAY. Was that at about the time of the break in the market that this declaration of this dividend was made?

Mr. WEEKS. Oh, no; it was a year later.

Mr. GRAY. What was a year later?

Mr. WEEKS. The dividend was a year later.

Mr. GRAY. Will you let me have that original subscription agreement? Will you just look at the date of it? It is May, 1929, isn't it?

Mr. WEEKS. Yes.

Mr. GRAY. That is correct?

Mr. WEEKS. That is correct.

Mr. GRAY. May, 1929. Your letter that you have handed me here with respect to the action of the board was on August 27, 1929, wasn't it?

Mr. WEEKS. That is right.

Mr. GRAY. And the dividend that was declared was in November of 1929, wasn't it?

Mr. WEEKS. That is right.

Mr. GRAY. Then it was the same year. Now, then, I am asking you whether or not the stock during that intervening period of time did not reach a high of 94¾? Not the next year; I am talking about the same year.

Mr. WEEKS. No; in August, when that letter came out, the high of the stock was 94¼ and the low was 85⅞.

Mr. GRAY. At that time?

Mr. WEEKS. Now, at the time of the dividend in November the high of the stock was 56 and the low of the stock was 42½

Mr. GRAY. That was in November after the break?

Mr. WEEKS. That was in November, 1929.

Mr. GRAY. That is the reason your pool lost money. Of course, we understand that. The stock was placed on a \$3 basis in 1930, wasn't it?

Mr. WEEKS. The dividend was reduced to 75 cents in 1930 because the earnings had fallen off.

Mr. GRAY. Yes. In September of 1931 it was placed on a \$2 basis, or reduced to 50 cents, wasn't it?

Mr. WEEKS. That is right.

Mr. GRAY. And in February, 1932, it was placed on a dollar basis, reduced to 25 cents per quarter; that is correct, isn't it?

Mr. WEEKS. That is correct; yes.

Mr. GRAY. I ask you whether or not these figures are correct—and these figures came from your books. That in the year 1930 this General Asphalt Co., in which you held a very large interest, or in which your syndicate held a very large interest, paid out a total of \$1,549,292 in dividends, while their net income for the year was only \$1,006,796?

Mr. WEEKS. That is correct.

Mr. GRAY. That is correct?

Mr. WEEKS. Yes.

Mr. GRAY. In other words they paid out one and one-half times in dividends in 1930—and your pool was a very large holder of the stock, the members of your pool were very large holders of the stock—they paid out one and one-half times the amount of the net income?

Mr. WEEKS. That is correct.

Mr. GRAY. I ask you whether or not that is correct, that this pool from December of 1929 to March, 1931, while it was on this dividend paying basis that has been indicated—whether your pool did not receive \$613,750 in dividends?

Mr. WEEKS. If that was in proportion.

Mr. GRAY. That figure comes from your records.

Mr. WEEKS. That is correct.

Mr. GRAY. You were on the board that was declaring these dividends?

Mr. WEEKS. Yes.

Mr. GRAY. Right?

Mr. WEEKS. That is right.

Mr. GRAY. And you were a member of this pool?

Mr. WEEKS. Yes.

Mr. GRAY. You had several interests in the pool? Is that right?

Mr. WEEKS. I had two.

Mr. GRAY. Lloyd was on the board?

Mr. WEEKS. Yes; right.

Mr. GRAY. He was interested in the syndicate?

Mr. WEEKS. That is right.

Mr. GRAY. And your concern of Luke Banks & Weeks was handling the stock and selling it and buying?

Mr. WEEKS. To the extent that I have given you the figures of; yes.

Mr. GRAY. And you were getting your commissions from that? I ask you whether or not during this same year, 1930, the pool itself,

out of that one and one-half millions of dollars that were paid, did not get \$448,850 in dividends, or almost one-third of the total amount paid out by them in dividends, and practically or nearly one-half of the entire net income of the General Asphalt Co. during that year?

Mr. WEEKS. Well, if that is the proportion of the stock to the whole that the pool owned then they got that dividend. They did not get anything else except their proportion.

Mr. GRAY. Yes.

Mr. WEEKS. And I have figures here—

Mr. GRAY. Well, I concede that part of it, Mr. Weeks. You do not need to argue that. But the figures I want to make sure of— and these come from our examinations—show that in the year 1930 General Asphalt Co. made \$1,006,796.

Mr. WEEKS. That is correct.

Mr. GRAY. They paid out in dividends \$1,549,292. That left a deficit for the year of \$542,921. But that notwithstanding that, your pool received of the \$1,549,292 that was paid out in dividends, \$448,850, which is a matter of almost one-third, or you can put it that it is over a quarter.

Mr. WEEKS. Yes.

Mr. GRAY. Decidedly over a quarter.

Mr. WEEKS. Yes.

Mr. GRAY. \$448,000 against \$1,549,000.

Mr. WEEKS. I say we owned the same proportion of the company as we received the dividends.

Mr. GRAY. And is it not a fact that in the year 1931, while you were still on the board, while you were still managing this pool, while you were having part of the say at least with respect to what dividends would be declared, during the first six months the company itself showed a deficit of 41 cents per share on the common stock, and notwithstanding that fact there were dividends declared from which your pool received \$102,600?

Mr. WEEKS. Correct.

Mr. GRAY. That is correct, isn't it?

Mr. WEEKS. That is correct.

Mr. GRAY. Of course, I suppose you will say to this committee that the fact that you were on the board, the fact that you suggested the conversion of the preferred stock, the fact that you made this pool in May of 1929, the fact that they paid their first dividends in November of 1929, the fact that they paid more dividends in 1930 than they earned by one and a half times, and the fact that though they had a deficit in 1931 your pool got \$102,000 in dividends, is all just a pure coincidence and has nothing to do with the manipulation of the market or the handling of the affairs of the General Asphalt Co. to the benefit of your pool that you were managing, is that right?

Mr. WEEKS. That is right.

Mr. GRAY. All right. I thought you would say that.

Senator FLETCHER. What was the business of the General Asphalt Co.?

Mr. WEEKS. The business of the General Asphalt Co. is oil, paving. They paved these streets in Washington. Most of the old streets of asphalt were paved by the General Asphalt Co. in Washington 25 years ago. It is a going concern with a fine reputation.

Senator FLETCHER. Where do they get the asphalt?

Mr. WEEKS. They get it from Trinidad. They own the Trinidad Lake Co., and they also own asphalt in Venezuela. They have about \$35,000,000 worth of property. They have 256 acres in New York Harbor. And they are a going concern with a fine reputation. Mr. Gray, can I say that in the year 1929 our earnings applicable to dividends were \$1,934,000, and in 1930 one million—

Mr. GRAY. Wait a minute. In 1929 they were \$4.71 a share; is that right?

Mr. WEEKS. They were \$4.67 a share.

Mr. GRAY. All right. I have it as \$4.71.

Mr. WEEKS. Yes.

Mr. GRAY. And you paid a dividend of \$4?

Mr. WEEKS. And we paid a dividend of \$1.

Mr. GRAY. And nobody knew that was going to be paid except the officers?

Mr. WEEKS. We paid a dividend of only \$1.

Mr. GRAY. On the basis of \$4?

Mr. WEEKS. But, we only paid \$1 out of a million—you are showing in 1930 that we paid \$1,400,000 or \$1,500,000, and in 1929 when we earned \$1,900,000 we only paid \$350,000.

Mr. GRAY. What you want to show is that you had an undistributed surplus that was applicable to the dividends?

Mr. WEEKS. Yes. And we declare dividends out of earnings—of earned surplus, not out of earnings, because we can not tell what the earnings are going to be. We do not get the figures for two or three months.

Mr. GRAY. Did you know that Block, Maloney & Co. were operating a pool in General Asphalt at the same time?

Mr. WEEKS. No.

Mr. GRAY. You did not know that?

Mr. WEEKS. No.

Mr. GRAY. The records of your pool show that on March 5, 1930, while the low of General Asphalt on the market that day was $57\frac{7}{8}$ and while the high was $60\frac{1}{4}$ you sold 5,000 shares to Block, Maloney & Co. at \$55 a share; is that correct? Or Benjamin Block & Co., is it now? Is that correct?

Mr. WEEKS. Would you mind if I correct you? I don't think Benjamin Block was ever Block, Maloney & Co. They were two entirely different firms.

Mr. GRAY. Well, Block, Maloney & Co. has been dissolved, and the present firm that succeeded them practically is Benjamin Block & Co.; isn't that so?

Mr. WEEKS. I don't think so. I am under that impression. I don't know. I don't think there is any connection between the two firms. They just happen to be similar names. Is it the same firm?

Mr. GRAY. You may know all about that, Mr. Weeks, but Block, Maloney & Co. was a firm which dissolved, and Block & Co. succeeded to the business of Block, Maloney & Co.

Mr. WEEKS. It did? I don't know.

Mr. GRAY. Now what I am asking you is whether or not to either—I will put my question in the alternative—whether to either Benjamin Block & Co. or to Block, Maloney & Co. on March 5, 1930,

your pool did not sell 5,000 shares of General Asphalt stock at \$55 per share while the low for the day on the board was $57\frac{7}{8}$?

Mr. WEEKS. Well, the only thing I can say about that is what Mr. Megear told you yesterday. He said that where it shows on that date that he made the verbal arrangement two or three days ago when it was selling at the price of 54, and they bought it at 55, but when the transaction went through, and it took two or three days to sign up the contract, the stock was selling at 57. I think you understand that, Mr. Gray. You told us that yesterday.

Mr. GRAY. Well, just answer that question. It is a fact that you made this sale?

Mr. WEEKS. It is a fact. Your records show it.

Mr. GRAY. All right. I will ask you whether on March 26, 1930, you sold 10,000 shares to that firm at \$56 per share when the low on the New York Stock Exchange that day was $67\frac{3}{4}$, or $11\frac{3}{4}$ points higher?

Mr. WEEKS. If our records show that.

Mr. GRAY. Your records show that. I will ask you whether or not on March 31, 1930, you sold Block, Maloney & Co. 10,000 shares at \$57 per share when the low on that day was $86\frac{3}{8}$?

Mr. WEEKS. These sales were arranged a month ahead of time.

Mr. GRAY. I am going to give you the benefit of time. In other words, Mr. Megear told me yesterday in your presence that an arrangement had been made with Block, Maloney & Co., or Benjamin Block & Co., whatever the firm would be, to give them the sale of stock at a certain price, and in consideration of that to give them an option to buy at future dates at certain prices, and because of that fact the sale was made to them at those prices?

Mr. WEEKS. Mr. Megear knows all about that, and he is right here. I was away to South Carolina and didn't have anything to do with that. Mr. Megear knows about that.

Mr. GRAY. I ask you whether or not those stocks were sold to Block, Maloney & Co. at a price less than the market price; that is, at a price less than that which you could have gotten for it if you had sold it on the stock exchange, because of the fact that you wanted Block, Maloney & Co. to help keep up an active market for you in order to keep the price of the stock up for the pool?

Mr. WEEKS. No, sir.

Mr. GRAY. Nothing of that kind?

Mr. WEEKS. No, sir.

Mr. GRAY. I ask you whether or not on March the 4th, the day before that first 5,000 shares was transferred, you did not get a letter from Block, Maloney & Co., of which this is a copy? I will read it, and then hand it to you:

BENJAMIN BLOCK & Co.,
New York, March 4, 1930.

Messrs. LUKE, BANKS & WEEKS,
14 Wall Street, New York City.
(Attention of Mr. Thomas J. Megear.)

DEAR SIR: In reply to your letter of even date, we beg to say that the matter referred to therein is acceptable to us.

Hoping that you will give us whatever assistance you can marketwise, and assuring you that we will do our utmost for a successful culmination, we remain,

Very truly yours,

BENJAMIN BLOCK & Co.

I wish you to tell the committee what they mean when they say to you "Hoping that you will give us whatever assistance you can marketwise," and when they assure you that they will do their utmost for a successful culmination?

Mr. WEEKS. Mr. Gray, I don't know. I never saw that letter until I showed it to you yesterday. You saw that letter the same time I did. I don't know what they mean.

Mr. GRAY. Well, you are a broker?

Mr. WEEKS. Yes.

Mr. GRAY. Your concern has been in existence for a good many years?

Mr. WEEKS. Yes.

Mr. GRAY. And you are familiar with the language of the Street more than I am?

Mr. WEEKS. Yes, sir.

Mr. GRAY. What do Block, Maloney & Co. mean when they say to you what they do with respect to giving them help marketwise? What do you mean by marketwise?

Mr. WEEKS. I don't know what they mean by that.

Mr. GRAY. You do not?

Mr. WEEKS. I think you will have to ask them. I don't know.

Mr. GRAY. Might I suggest to you—

Mr. WEEKS. I couldn't honestly say what that means.

Mr. GRAY. Might I suggest to you that it means that they want you to cooperate with them in whatever may be done with respect to the marketing of that stock, whether it be selling or buying, and not act—that is, not permitting your firm to act in a manner that would be contrary to the way that they would act? Not to buy when they were selling, not to sell when they were buying? Isn't that what it means to help marketwise?

Mr. WEEKS. It might mean that, but not necessarily.

Mr. GRAY. Wouldn't you guess that it was?

Mr. WEEKS. No.

Mr. GRAY. You wouldn't? Well, I haven't been on the exchange as long as you, but I would guess it. Now, will you read the last part of that letter, please, about the culmination? Read it out loud.

Mr. WEEKS (reading):

Hoping that you will give us whatever assistance you can marketwise, and assuring you that we will do our utmost for a successful culmination, we remain,

Very truly yours.

Mr. GRAY. What do they mean by a successful culmination? A successful culmination of what?

Mr. WEEKS. Don't you think that you ought to read our letter to Block?

Mr. GRAY. Yes.

Mr. WEEKS. So that the people know what you are talking about?

Mr. GRAY. Yes; I think you are right. That refers to the letter of March 4, doesn't it? Is that correct? That refers to the letter of March 4, doesn't it, Mr. Weeks?

Mr. WEEKS. This is dated March 4.

Mr. GRAY. Yes.

Mr. WEEKS. "In reply to your letter of even date."

Mr. GRAY. I want to read you this letter of March the 4th, and direct your attention to the fact that you said that Mr. Megear had conducted these negotiations several days previous. Addressed to Messrs. Benjamin Block & Co., attention Mr. William B. Anderson. [Reading:]

GENTLEMEN: We hereby confirm understanding reached between our Mr. Thomas J. Megear and your Mr. William B. Anderson, as follows:

1. You will purchase from us to-day 5,000 shares of General Asphalt Co. stock at \$55 per share, payment for said stock to be made to-morrow. We hereby agree to repurchase from you all or any part of said 5,000 shares at a price of \$52 per share at any time up until 2.45 p. m. March 19, 1930.

2. In consideration of your purchase of said 5,000 shares from us, and provided that we do not repurchase any part of said 5,000 shares from you, we hereby grant you an option to purchase an additional 10,000 shares (all or none) of General Asphalt Co. stock at \$56 per share at any time up to and including April 3, 1930, at 2.45 p. m.

3. If the above option is exercised, we hereby grant you an additional option to purchase 10,000 shares (all or none) of General Asphalt Co. stock at \$57 per share at any time up to and including May 3, 1930, at 2.45 p. m.

If this meets with your understanding of the agreement, will you kindly confirm same by letter?

Very truly yours.

Now that is your letter, isn't it?

Mr. WEEKS. That is our letter.

Mr. GRAY. All right. What is there that is in your letter that induced Benjamin Block & Co. to use the words "marketwise" and "assuring you that we will do our utmost for a successful culmination?"

Mr. WEEKS. Nothing in that letter. Therefore I don't know what you mean.

Mr. GRAY. All right, if you don't we will put these letters in the record and let the committee draw their own conclusions from them. Now is it not a fact that these stocks and these options were given to Block, Maloney & Co. for the purpose of having them cooperate with you in keeping up the market?

Mr. WEEKS. No, sir.

Mr. GRAY. It is not?

Mr. WEEKS. No, sir.

Mr. GRAY. You say that is not so. Now did you keep a long position in this stock or at times did you have a short position?

Mr. WEEKS. Never had a short position. We were always long in the stock.

Mr. GRAY. Always long?

Mr. WEEKS. Yes.

Mr. GRAY. Do you know the position that Block, Maloney assumed?

Mr. WEEKS. I don't know anything about it except that we sold them stock.

Senator FLETCHER. Did they buy the other 10,000 shares?

Mr. WEEKS. I don't think they did.

Mr. GRAY. Well, I am going to put that company's position upon the record; Block, Maloney & Co.'s position in this stock, from March 5 to March 31, 1930, which was the period of time right after this letter of March 4 was written. This can be verified from the books of Block, Maloney & Co.

That on March 5, 1930, that is the close of the day, at the close of the day after they had received the 5,000 shares from Luke, Banks & Weeks that is referred to, they were 3,300 shares long.

On March 6 they were 3,600 shares long.

On March 7 they were 1,500 shares long.

On March 10 they were 800 shares long.

On March 11 they were 1,100 shares long.

On March 12 they were even.

On March 13 they were 900 shares short.

On March 14 they were 3,300 shares short.

On March 17 they were 3,900 shares short.

On March 18 they were 9,200 shares short.

On March 19 they were 11,300 shares short.

On March 20 they were 11,600 shares short.

On March 21 they were 11,200 shares short.

On March 24 they were 12,400 shares short.

On March 25 they were 15,100 shares short.

And then the next day they received 10,000 shares from Luke, Banks & Weeks. At the close of that day they were 5,200 shares short.

On March 27 they were 5,700 shares short.

On March the 28th they were 6,500 shares short.

And the next day, March 31, they received 10,000 shares from Luke, Banks & Week, and their account wound up even. But they were not cooperating with your firm?

Mr. WEEKS. Not a bit. Entirely an independent thing.

Mr. GRAY. Do you know how much commissions you earned from the operations in this pool that we have talked about first? You told me yesterday that you thought it as \$80,000. We took from your books a matter of approximately \$85,000.

Mr. WEEKS. Yes.

Mr. GRAY. Now, in addition to that, do you know what their interest and carrying charges amount to?

Mr. WEEKS. Well, we generally charge one-half of 1 per cent more than the money costs us. That is our principle. We have done it for years.

Mr. GRAY. Now, Mr. Weeks, I am going to step aside from the pool in General Asphalt and also from the Block, Maloney end of the pool. Can you make to this committee any suggestion with respect to the operation of specialists that you may have in your mind for the purpose of improving the practice with respect thereto?

Mr. WEEKS. No.

Mr. GRAY. Is it your opinion that the proper thing for the stock exchange to do with respect to a specialist is to stop him from trading in his own stock?

Mr. WEEKS. I have often thought it might be advisable to try that.

Mr. GRAY. Haven't you said that you thought the stock exchange ought to adopt a rule stopping specialists from trading in the stock in which they were specialists?

Mr. WEEKS. I have said that I thought it might be a benefit for the business houses that do business for the investors and speculators if the specialists acted as brokers rather than as brokers and traders both. And I do feel that that might be well.

Mr. GRAY. Haven't you said that in your opinion the proper thing to do is to stop the specialists from trading on the stock exchange in the stock in which they were specialists?

Mr. WEEKS. I wouldn't say I have made that statements; no.

Mr. GRAY. Didn't you make that statement to me yesterday afternoon?

Mr. WEEKS. Not in the spirit that you are saying it now.

Mr. GRAY. Didn't you make that statement to me yesterday afternoon and then regret that you made it, and call me up and ask me not to press you with respect to that matter to-day?

Mr. WEEKS. No; I didn't. I didn't regret saying that one bit.

Mr. GRAY. Well, then, it is a fact that you did say to me that you thought the stock exchange should stop specialists from trading in the stock in which they were specialists?

Mr. WEEKS. I said I thought it may be a good thing—I said I thought it may be a good thing if the specialists were brokers only, like they are in London, and not traders at the same time they are acting for brokers.

Mr. GRAY. You made another suggestion, did you not, and whether it is good or bad I want it to come before the committee, and that is, that in your opinion the management of the stock exchange should have on its board several high-type outsiders that were not members of the exchange, for the purpose of aiding them in governing the exchange itself?

Mr. WEEKS. I said that I thought that if they had a representative crowd of men that were not just brokers alone, but bankers and lawyers, like the Supreme Court, that type of men, that it would aid the public confidence very much.

Mr. GRAY. Did you not suggest that outsiders of that type should go on the board of the stock exchange? Didn't you?

Mr. WEEKS. I don't think I made any recommendation on that.

Mr. GRAY. I am not discussing with you whether it is possible to do it under the present rules of the exchange, which, of course, is an unincorporated association.

Mr. WEEKS. I said that I thought that if the stock exchange had a bigger and broader board of governors that it would restore the confidence of the general public. I thought that might be—

Mr. GRAY. By the way, you are still on the board of General Asphalt?

Mr. WEEKS. Yes, sir.

Mr. GRAY. And Mr. Lloyd is still on the board of General Asphalt?

Mr. WEEKS. Yes, sir.

Mr. GRAY. That is all I want to ask him.

Senator FLETCHER. You have a seat on the stock exchange, Mr. Weeks?

Mr. WEEKS. No; I am not a member of the stock exchange. I was a member for 16 years. I am not now. I have not been a member for five or six years.

Senator FLETCHER. General Asphalt Co. stock is selling at 7?

Mr. WEEKS. Seven.

Mr. GRAY. I want to ask you whether you were on the board of the Simms Petroleum?

Mr. WEEKS. Yes.

Mr. GRAY. Were you in the pool of Simms Petroleum?

Mr. WEEKS. I had a participation as an individual. Not the firm of Luke, Banks & Weeks.

Mr. GRAY. As an individual?

Mr. WEEKS. As an individual.

Mr. GRAY. We have that pool. Whether we will reach it or not depends on the committee. Did the firm have any interest in that pool?

Mr. WEEKS. No. Their individual partners.

Mr. GRAY. Mr. Weeks, we are through with you. You are still subject to subpoena in case the committee wants to subpoena you.

Senator FLETCHER. Mr. Gray, do you want Mr. Megear? Do you want the partner of Mr. Weeks?

Mr. GRAY. No; he can go. I told him he was subject to subpoena, but he can go. I was anxious to get through this afternoon because both he and Mr. Megear had arranged to leave town this afternoon. I told them I could not release them, but I told them I would try to get through if I could.

We will call Mr. Breen.

TESTIMONY OF GEORGE F. BREEN, RYE, N. Y., DEALER IN SECURITIES

The CHAIRMAN. Do you solemnly swear that the statements you are about to make will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BREEN. Yes. My name is George F. Breen.

Mr. GRAY. The committee will understand that wherever we refer to figures we either have the account or the transcript of those accounts here and can verify them and back them up with the result of the examination of the files, some of which were so tremendously thick that it was not advisable to bring them, or necessary.

Senator COUZENS. What firm are you with, Mr. Breen?

Mr. BREEN. I am an individual. No firm.

Senator COUZENS. In business for yourself?

Mr. BREEN. Yes.

Senator COUZENS. What is your occupation?

Mr. BREEN. I am a dealer in securities.

Senator COUZENS. Stocks?

Mr. BREEN. Stocks. Strictly stocks.

Senator COUZENS. Strictly stocks. And do you have a seat on the stock exchange?

Mr. BREEN. No, sir.

Senator COUZENS. Your address?

Mr. BREEN. Rye, N. Y.

Mr. GRAY. Mr. Breen, I think you have told the committee that you are not connected with any brokerage house?

Mr. BREEN. No.

Mr. GRAY. You never have been?

Mr. BREEN. No.

Mr. GRAY. You are what is called a free-lance trader, are you not?

Mr. BREEN. I am classed as a dealer in securities, sir.

Mr. GRAY. Now, before I get into the proposition of the Kolster Radio, about which I am going to ask you, I want to ask you about

another practice on the stock exchange in New York. I will lead you to it. If I am wrong in my statement in reference to it you will please correct me. Is it not a fact that it is a general practice of the officers, or of the officers and directors, whoever may be the guiding and controlling factor of the particular corporation, where their stocks are traded in on the New York Stock Exchange and where the price seems to be wavering, to take men like yourself and give you an authority up to a certain point to go out and buy those stocks to support the market?

Mr. BREEN. Yes.

Mr. GRAY. And you have been doing that yourself for such corporations, haven't you?

Mr. BREEN. Yes, sir.

Mr. GRAY. For how long past?

Mr. BREEN. Oh, for twenty-odd years.

Senator FLETCHER. Let us get Mr. Breen's name. What is your name, please?

Mr. BREEN. George F. Breen.

Senator FLETCHER. Breen. How do you spell the name?

Mr. BREEN. B-r-e-e-n.

Senator FLETCHER. And your address?

Mr. BREEN. Rye, N. Y.

Senator FLETCHER. Thank you.

Mr. GRAY. Won't you tell us of some of the instances in which you have done that? What the circumstances were surrounding those particular instances? What the limitation of your authority was, and what you did?

Mr. BREEN. I can tell you in a general way, Mr. Gray. It would be hard for me to pick out specific things.

Mr. GRAY. Tell the committee in a general way what the practice is.

Mr. BREEN. Well, corporations in many cases, and in many cases institutions, feel that a sustaining of their securities is necessary, and they would give me a trading account, with power to purchase a limited number of shares at some specified price, and with power to redistribute those shares as I could. Naturally my end of the business I tried to redistribute at a profit.

Senator TOWNSEND. They put up the money for you?

Mr. BREEN. Yes.

Mr. GRAY. What is the last instance of that type that you handled?

Mr. BREEN. It is some time back, Mr. Gray, because—

Mr. GRAY. Market conditions have not been such as to justify it?

Mr. BREEN. No; we were in this tremendous boom when things went anyway. Didn't need support.

Mr. GRAY. How many shares would the officers of the company in an instance such as you have indicated authorize you to buy?

Mr. BREEN. Oh, it would be a nominal amount, generally guided by the total capitalization of the company.

Mr. GRAY. What do you mean by a nominal amount?

Mr. BREEN. I would say 25,000, maybe 50,000, if it was a 2,000,000-share concern.

Senator BROOKHART. Give the names of some of the concerns.

Mr. GRAY. Give the names of some of the concerns that have authorized you to do this.

Mr. BREEN. I did not come prepared, Mr. Gray. If you had asked me I would have had it.

Mr. GRAY. I will say that this is something that I obtained from Mr. Breen in the last minute yesterday.

Mr. BREEN. Oil Well Supply Co. I supported for a couple of years.

Mr. GRAY. Oil Well Supply Co., of Pittsburgh?

Mr. BREEN. Yes.

Mr. GRAY. You supported that for a couple of years?

Mr. BREEN. Yes.

Mr. GRAY. In other words, with the corporation's funds?

Mr. BREEN. I would not say with the corporation's funds.

Mr. GRAY. Well, the corporation's officers gave you the funds?

Mr. BREEN. I would not have any way of knowing where the funds came from.

Mr. GRAY. Now, they came from the corporation's officers, didn't they?

Mr. BREEN. I don't know.

Mr. GRAY. Who gave them to you?

Mr. BREEN. I might have received them indirectly from the corporation; yes.

Mr. GRAY. That is what I mean. And you were instructed to go out and buy the stock to keep it from falling below a certain price?

Mr. BREEN. Just to guide it.

Mr. GRAY. Well, can you guide stocks on the New York Stock Exchange?

Mr. BREEN. Ordinarily; yes.

Mr. GRAY. In other words, that can be done?

Mr. BREEN. Pardon me?

Mr. GRAY. That can be done?

Mr. BREEN. Yes, sir.

Mr. GRAY. It can be put up?

Mr. BREEN. If you buy enough of it; yes.

Mr. GRAY. Yes. And it can be put down?

Mr. BREEN. Yes.

Mr. GRAY. That is why you use pools, isn't it?

Mr. BREEN. Not necessarily. Pool operations are different.

Senator BROOKHART. What was the purpose of sustaining this particular stock, or why did they want it sustained?

Mr. BREEN. Well, Senator, there are lots of reasons. It helps the credit of a company to have its stock stabilized.

Senator BROOKHART. Were they putting off stock on the public?

Mr. BREEN. Pardon me?

Senator BROOKHART. Were they putting off stock on the public?

Mr. BREEN. No; no new issues of anything; but it helps the general credit of the company. You stabilize the bond market the same way.

Senator TOWNSEND. How were you paid? So much per share?

Mr. BREEN. No, Senator. I have to take my chances of reselling at a profit. If it came back, in many cases I was not paid.

Senator TOWNSEND. You are guaranteed against loss?

Mr. GRAY. You are guaranteed against loss? I was going to ask the same question that Senator Townsend asked you, only I was putting it in another way. You were guaranteed against any loss?

Mr. BREEN. Absolutely.

Mr. GRAY. In other words, when you used the company's money for the purpose of putting the price up to a certain point, if the stock went below that point and you unfortunately couldn't control it, in that instance the company stood the loss?

Mr. BREEN. If it was their stock; yes.

Mr. GRAY. Yes. If, on the other hand, there was a profit, they got back their principal invested and the profit belonged to you?

Mr. BREEN. Not necessarily. Sometimes——

Mr. GRAY. You would equitably distribute it?

Mr. BREEN. Yes.

Mr. GRAY. Some of the officers of the corporation might get some of it?

Mr. BREEN. No.

Mr. GRAY. Who would get the rest of it besides you then?

Mr. BREEN. Well, you see, I always had associates.

Mr. GRAY. All right. Then when I say "you" I refer to you and your associates. It would be you and your associates who acted with you?

Mr. BREEN. Yes.

Mr. GRAY. Would get the profit?

Mr. BREEN. Yes.

Mr. GRAY. Now tell this committee what you use associates for in keeping the price up?

Mr. BREEN. Well, quite often I had many, and I always had two or three associates in the office with whom I would divide the profits. The 100 per cent.

Mr. GRAY. What did you use them for?

Mr. BREEN. Well, I might have half a dozen or a dozen stocks at one time. It is impossible to——

Mr. GRAY. Oh, you would have them to help you?

Mr. BREEN. Yes.

Mr. GRAY. You needed the associates to help you?

Mr. BREEN. Yes.

Mr. GRAY. In other words, you mean that you might have a time when at least a half a dozen different companies employed you, you being a perfectly free-lance trader—employed you for the purpose of going out and keeping the price of their stocks up?

Mr. BREEN. It would not always be for the same reason, Mr. Gray. I mean sometimes I would not know what the reason would be.

Mr. GRAY. Well, whatever the reason might be?

Mr. BREEN. Some individual or an institution might want to liquidate a block of stock and give it to me.

Mr. GRAY. Whatever the reason might be, the purpose of your activities was to keep the price up to a certain level?

Mr. BREEN. Yes; that was my object.

Mr. GRAY. That was your object; yes.

Senator COUZENS. That was not necessarily the firm's object though, was it?

Mr. BREEN. No. Of course, I would not take a stock and say it is going to stay here at 50 and not go one-eighth below, you see.

Mr. GRAY. What did you mean when you answered Senator Couzens that it was not necessarily the firm's object? The firm's object in giving you that money and giving you authority to buy the stock, was what?

Mr. BREEN. To stabilize, not fix the price. In other words, if somebody came in to sell there would be somebody to take it and redistribute it. If the stock dropped \$10 possibly on a sale of a couple of thousand shares it hurts the credit of the company.

Mr. GRAY. Questions have arisen once or twice in these committee minutes as to the intrinsic value. I do not suppose the intrinsic value of that stock had anything to do with the price at which you tried to maintain it?

Mr. BREEN. Stocks generally always meet their value, Mr. Gray.

Mr. GRAY. They do?

Mr. BREEN. Sooner or later.

Mr. GRAY. In the end?

Mr. BREEN. Sooner or later.

Mr. GRAY. Stocks generally meet their value sooner or later. That is the natural law of supply and demand.

Senator BROOKHART. Generally later, is it not, in bankruptcy courts?

Mr. BREEN. It has been sooner lately.

Senator COUZENS. It has been sooner lately.

Mr. GRAY. I direct your attention, Mr. Breen, to a transaction in which you were interested in the fall of 1928 in Kolster Radio stock.

Mr. BREEN. Yes.

Mr. GRAY. You recall it very distinctly, I assume?

Mr. BREEN. Yes. I have the notes here.

Mr. GRAY. Suppose you tell the committee the history of the transaction from the beginning to the end without my asking questions, and we will get it quicker.

Mr. BREEN. I think so.

Mr. GRAY. Go right ahead.

Mr. BREEN. Well, the Kolster Radio Co. was a west coast concern out in San Francisco. It was the old Federal Telegraph Co. Spreckels, the sugar Spreckels family.

Senator COUZENS. What was the president's name?

Mr. BREEN. I think his name was Stone.

Mr. GRAY. That is correct.

Mr. BREEN. And Spreckels, I think Rudolph Spreckels, was chairman of the board. Rudolph Spreckels was a large owner of this Kolster Radio stock. And he reached a point in his other endeavors where he had to dispose of some. So he gave me a series of options on his stock. A certain amount of the stock. Do you have a copy of the option? I have them right here.

Mr. GRAY. I haven't a copy of the options; no, Mr. Breen. You said yesterday afternoon you would endeavor to locate them and bring them with you.

Mr. BREEN. Yes. Well, they are right here.

Mr. GRAY. Suppose we put them on the record in the first instance.

Mr. BREEN. Yes.

Mr. GRAY. Now let me ask you so as to sort of have this in a little more orderly way. You say that Spreckels gave you options. As a matter of fact the matter was directed to your attention by a man named Oscar Alexander; is that correct?

Mr. BREEN. Yes.

Mr. GRAY. You didn't know Spreckels?

Mr. BREEN. Yes.

Mr. GRAY. What?

Mr. BREEN. I knew him.

Mr. GRAY. And then after the matter was directed to your attention then the matter was taken up with you by Mr. Spreckels?

Mr. BREEN. Mr. Spreckels sent for me.

Mr. GRAY. Then you got the option?

Mr. BREEN. Yes.

Mr. GRAY. It is dated October 26, 1928. It is addressed to Messrs. Arthur W. Cutten—and I will tell you about that in a moment—and George F. Breen, in care of E. F. Hutton & Co., New York. [Reading:]

GENTLEMEN: For and in consideration of \$1 paid in hand and other services rendered, I agree to deliver to you the whole or any part of 150,000 shares of the Kolster Radio Corporation common stock subject to the following terms and conditions:

(1) Fifteen thousand shares at \$70 per share net to me within 10 days from this date.

When you have exercised the above option you have the privilege to call:

(2) Fifteen thousand additional shares at \$70 per share net to me within 25 days from this date.

When you have exercised option No. 2 you have the privilege to call:

(3) Twenty thousand shares at \$70 per share net to me within 32 days from this date.

When you have exercised option No. 3 you have the privilege to call:

(4) Fifty thousand shares at \$72 per share net to me within 62 days from this date.

When you have exercised option No. 4 you have the privilege to call:

(5) Fifty thousand shares at \$74 per share net to me within 90 days from this date.

It is understood that you will have the right to take up and pay for in cash these amounts as specified in the above options on or before the dates indicated; and if you fail to do so, this agreement will be terminated forthwith upon such failure.

Yours very truly,
Accepted.

RUDOLPH SPRECKELS.

GEORGE F. BREEN.
E. F. HUTTON & Co.
(Signature guaranteed.)

Mr. GRAY. Now, that is a correct copy of that option, isn't it?

Mr. BREEN. Yes.

Senator COUZENS. Mr. Gray, is there any necessity of reading all those other options?

Mr. GRAY. No. There are no other options, Senator. I will just identify this as under the date of October 30, 1928, in which he agrees to deliver the whole or any part of 100,000 shares at \$84 a share. And they can go upon the record.

(The letter referred to is as follows:)

OCTOBER 30, 1928.

MESSRS. ARTHUR W. COTTEN and GEORGE F. BREEN,
Care of E. F. Hutton & Co., New York, N. Y.

GENTLEMEN: For and in consideration of \$1 paid in hand and other services rendered, I agree to deliver to you, the whole or any part of 100,000 shares of the Kolster Radio Corporation common stock at \$84 per share net to me. This option is good for 30 days from this date.

Withdrawals of stock hereunder are to be paid for in cash at time of delivery of stock by me to you.

Yours very truly,

Accepted.

RUDOLPH SPRECKELS.
GEORGE F. BREEN.

E. F. HUTTON & Co.
(Signature guaranteed.)

Mr. GRAY. Now, when you got those options you paid, of course, nothing for them?

Mr. BREEN. Only the legal consideration.

Mr. GRAY. Of a dollar?

Mr. BREEN. Yes.

Mr. GRAY. And you interested in those options four people including yourself; is that correct?

Mr. BREEN. Yes.

Mr. GRAY. One yourself, one Arthur W. Cutten, one Oscar Alexander?

Mr. BREEN. Yes.

Mr. GRAY. And who was the fourth?

Mr. BREEN. L. P. Fisher.

Mr. GRAY. L. P. Fisher. Now, L. P. Fisher is one of the Fisher Bros., as they are known?

Mr. BREEN. Yes.

Mr. GRAY. And Arthur W. Cutten is a Chicago man?

Mr. BREEN. Yes.

Mr. GRAY. And he deals in the grain markets more particularly than he does in the stock market?

Mr. BREEN. Yes.

Mr. GRAY. And you each had a one-fourth interest, did you not?

Mr. BREEN. Yes.

Mr. GRAY. Now, having those options, what did you do?

Mr. BREEN. Why, do you mean what did I actually do?

Mr. GRAY. Yes. I want to know what you did?

Mr. BREEN. Well, I started to sell as soon as I could make a profit.

Mr. GRAY. Is that the first thing that you did?

Mr. BREEN. I don't recall at the instant, Mr. Gray, but I will tell you exactly the procedure.

Mr. GRAY. Go ahead and tell it to us in your own way. I think it will interest the committee.

Mr. BREEN. Well, of course, if you have an option on something you have a certain risk of your own money. Now this does not appear that I had any risk, but I did have a risk as a matter of fact, inasmuch as that if I did not take that first block in 10 days' time the balance was canceled. So, if 10 days would come around and the stock was still at that price with even a little loss I would have taken that 15,000 shares to keep the balance of my option.

Mr. GRAY. Yes.

Mr. BREEN. So, the first step I did was to try and sell that 15,000 shares, so the balance of my option would be continued, and I would be in a position to take it up. And price did not necessarily mean anything on that first lot of stock.

Mr. GRAY. Now, will you amplify that a little? Do you mean that notwithstanding the fact that your option was to buy that first 15,000 shares at \$70 a share it made very little difference to you whether you sold it at 69 or not?

Mr. BREEN. That is correct. As long as I was in a position to take that 15,000 shares naturally with as little risk to myself or associates as possible.

Mr. GRAY. Yes. So what did you do under those circumstances? What is your first step? You sell short, don't you?

Mr. BREEN. Technically short.

Mr. GRAY. Yes.

Mr. BREEN. But you are not short when you have this.

Mr. GRAY. No, I understand. As far as the market is concerned you go in and you sell up to that 15,000 shares?

Mr. BREEN. Yes.

Mr. GRAY. Short?

Mr. BREEN. Yes.

Mr. GRAY. You might be said to be selling it hardly against the box but you are selling it against an option that you have?

Mr. BREEN. Selling it against an option that I have. It is technically short. It is not really short.

Mr. GRAY. Now you do that for this reason, do you not, because of the fact that if the stock goes down you do not have to exercise your option, and you can cover? I am not talking about what moral obligations there may be.

Mr. BREEN. That is hardly true, Mr. Gray. I can tell you one that I took that is down \$30, and I took 160,000 shares of it.

Mr. GRAY. All right. But your position as a matter of fact is this, is it not, that you took your short position with respect to a certain amount—

Mr. BREEN (interposing). I admit what you say can be done, but it is not the ethics of the business.

Mr. GRAY. Well, we are trying to find where those ethics of the business are.

Mr. BREEN. Well, there is such a thing exists.

Mr. GRAY. In the stock market?

Mr. BREEN. Yes.

Senator FLETCHER. The stock was listed, was it?

Mr. BREEN. Yes.

Senator FLETCHER. What was it quoted at?

Mr. BREEN. In the neighborhood of \$70 a share. Around that price.

Mr. GRAY. Oh, no. I will give you the figures, Senator Fletcher. That is wrong.

Mr. BREEN. The Senator means when the option was given.

Senator FLETCHER. Yes; what was it quoted at?

Mr. GRAY. Oh, when the option was given. I did not so understand. I thought he was asking you at what you started to sell it.

Mr. BREEN. No.

Mr. GRAY. As a matter of fact, what you did in this case was to assume a short position right away?

Mr. BREEN. Yes.

Mr. GRAY. Now, what you could have done and assured yourself as being absolutely safe was this, was it not: That if the stock went up, you having sold it, you could get your stocks under your option for the purpose of squaring your position?

Mr. BREEN. Yes, sir.

Mr. GRAY. So that you might either have made or lost a little bit of money, but your risk would not have been great; that is correct, is it not?

Mr. BREEN. Yes.

Mr. GRAY. Now, if your stocks went down—not what you did, but what can be done, the practice—what you could have done was to

cover at any price you thought it ought to be covered on the way down?

Mr. BREEN. Yes.

Mr. GRAY. And therefore, without any risk to yourself, make a decided profit and not take your option up at all?

Mr. BREEN. Yes; that could have been done.

Mr. GRAY. Yes; because the option simply provides that if you do not take it up it falls?

Mr. BREEN. That is correct.

Mr. GRAY. And you are under no legal obligation under your agreement to take it up at all?

Mr. BREEN. No.

Mr. GRAY. Except your danger of losing your option?

Mr. BREEN. In some instances.

Mr. GRAY. Now, you got your option. You started to operate. What was the date of your option, please, if you have it right there in front of you?

Mr. BREEN. October 26, 1928.

Mr. GRAY. Yes. Now you started to operate on the 29th, didn't you.

Mr. BREEN. Well, you have the figures.

Mr. GRAY. You accept the figures as being correct?

Mr. BREEN. Yes.

Mr. GRAY. You haven't any objection to me telling the committee that what you said yesterday to me was that after you started a trade you had never even seen your account?

Mr. BREEN. That is correct.

Mr. GRAY. In other words you did not pay any attention to the price at which it was either bought or sold?

Mr. BREEN. No, sir; only in my mind.

Mr. GRAY. Yes. You left it to somebody else to handle it, to go in and keep selling it and buying it, and keep the market up the same as you did in these other instances?

Mr. BREEN. Well, there is a discretion in there, but I established the policy of what should have been done.

Mr. GRAY. Yes. Then you never even after that took a look at your account?

Mr. BREEN. I knew the position.

Mr. GRAY. But the details you never looked at?

Mr. BREEN. No.

Mr. GRAY. You knew what the price was?

Mr. BREEN. Yes.

Mr. GRAY. On the first day the lowest price at which you sold any of your stock, according to these records, was \$74 a share. That is on the 29th. And the highest price at which you sold that stock on the 29th was 79½ dollars. These sheets from Hutton & Co. show that that is correct.

Mr. BREEN. I accept those figures.

Mr. GRAY. You accept those figures. All right. These figures were furnished to us at your instructions by E. F. Hutton & Co.

Mr. GRAY. Now, upon that first day you actually sold a hundred thousand shares of that stock and actually bought back 30,000 shares. Why did you sell a hundred thousand shares to protect your option on 15,000 shares of stock?

Mr. BREEN. Well, the market might have been there. You sell when the market is there.

Mr. GRAY. Then your total option from Spreckels was for 150,000 shares, was it not? And it cost you \$70 a share with a—I am sorry I haven't got that just in front of me—with a grading up to what price?

Mr. BREEN. 74, and the last was 84.

Mr. GRAY. It strikes an outsider, Mr. Breen, that when you got an option to buy as you had in this case, 15,000 shares at 70, 50,000 shares at 72, and 50,000 shares at 74, and stock was selling on the very first day that you started to operate at from 74 to 79½, the only thing for you to do was to go out and sell your stock and make your profit. Why not?

Mr. BREEN. Well, it is not that easy, Mr. Gray. [Laughter.]

Mr. GRAY. The point I am getting at is this, that in order that you could create an active market—

Mr. BREEN (interposing). You don't pay attention to whether you are going to make four or five points. You have one thing: You have a 50,000 shares of stock to dispose of. That is No. 1.

Mr. GRAY. Yes.

Mr. BREEN. No. 2 is to make a profit if possible.

Mr. GRAY. Yes. What do you have to do?

Mr. BREEN. You have to sell the stock when the demand is there, regardless of whether you make 1 point, 2 points, or 3 points, or 4 points. And that was proven—this stock was all sold at an average profit of less than 3 points.

Mr. GRAY. At an average profit of less than 3 points?

Mr. BREEN. Of less than 3 points on the average amount of stock.

Senator FLETCHER. Do you send out any letters or circulars or literature or anything of that sort?

Mr. BREEN. No, Senator.

Senator FLETCHER. You do not solicit the purchase of stock? Do you just depend on the market?

Mr. BREEN. Yes, sir. In those days it just went one way anyway.

Senator FLETCHER. How long were you disposing of this?

Mr. BREEN. All of these Radio stocks at that time were skyrocketing. You take, for instance—I have a few notations—Radio Corporation went from 85½ to 420. Grigsby-Grunow went up from the original price of \$8 to \$1,600.

Senator FLETCHER. In how long?

Mr. BREEN. About a year and a half's time. It is now about 2 or 1 something. Columbia Graphophone went from 32½ to 110, and the Dow-Jones industrial averages went up 101 points in that same time, and this stock went up least of all, went up 44 points.

Senator FLETCHER. Then you closed out?

Mr. BREEN. What? I was out in less than 3 points, Senator.

Mr. GRAY. But, in other words, Mr. Breen, this is one of the things that I want to establish in this case: What you had to do was to go in and buy and sell and within a certain range, disregarding the price at which you bought and the price at which you sold, in order to create an active market and an active demand for Kolster Radio stock, and thus cause the price to go up and give you an opportunity to get out at a better profit than you would otherwise get?

Mr. BREEN. Mr. Gray, it is apparent the demand was there. I did not have to get a demand to sell a hundred thousand shares the first day. The demand was in the market.

Mr. GRAY. You sold a hundred thousand shares the first day and bought thirty?

Mr. BREEN. Yes, sir.

Mr. GRAY. On the second day, which was October 30, you sold 82,400 and bought 24,100.

On the third day, which was October 31, you sold 50,200 and you bought 25,100.

On November 1 you sold 38,300 and you bought 17,500.

On November 2 you sold 27,900 and you bought 18,900.

On the next day, November 5, you sold 7,000 shares and you bought 18,900.

On the 7th you sold 6,600 and you bought 11,600.

On the 8th you sold 11,400 and bought 11,400.

On the 9th you sold 3,300 and bought 9,600.

And on the 12th you sold 12,700 and bought 2,100.

On the 13th you sold 2,600 and bought none.

On the 14th you sold a thousand and bought none.

On the 15th you sold 12,300 and bought none.

On the 16th you sold 16,500 and bought 300.

On the 19th you sold 57,300 and bought 25,900.

On the 20th you sold 16,700 and bought none.

On the 21st you bought 1,200 and sold none.

On the 22d you bought 5,300 and sold none.

On the 26th you bought 6,100 and sold 3,100.

On the 27th you bought 500 and sold 3,400.

On December 4 you bought 3,100 and sold none.

On December 5 you sold 2,000 and bought none.

On December 6 you bought 3,400 and sold none.

On December 7 you bought 6,400 and sold none.

And on December 10 you sold 200 and bought none.

Thus selling 456,900 shares of that stock in a month and a week or two, and buying 206,900, netting you exactly your position of 250,000 shares of stock which you took over to make up the difference between the buying and selling and the exercise of this option?

Mr. BREEN. Yes; that evened it up.

Mr. GRAY. Now, let me ask you whether or not on the days that you sold and did not buy it was because it was not necessary to make any buys to support the market?

Mr. BREEN. I might have sold some out in San Francisco that day; I don't know. I sold 93,800 out there.

Mr. GRAY. Out of this optional stock? That was all reflected in E. F. Hutton & Co.'s books?

Mr. BREEN. It would not come back the same day, Mr. Gray.

Mr. GRAY. Yes, sir; it might be registered on some other day.

Mr. BREEN. Three or four days later.

Mr. GRAY. Now, your price range from the time you started to deal in this to its high was the difference between 74 at the low and 95 $\frac{7}{8}$ at the high; is that correct?

Mr. BREEN. That is correct.

Mr. GRAY. And Mr. Spreckels got how much for his stock?

Mr. BREEN. Exactly those prices you see.

Mr. GRAY. Practically \$19,000,000, wasn't it?

Mr. BREEN. We could figure it out fast enough.

Senator COUZENS. He was lucky to get out at that price, wasn't he?

Mr. BREEN. Yes; he was. But he put it all in the sugar business, so it didn't do any good. [Laughter.]

Senator COUZENS. When you started out on this campaign of buying and selling stock, just what was your object? What were you trying to arrive at?

Mr. BREEN. Trying to liquidate the stock with Spreckels and make some money for myself.

Senator COUZENS. And you had to handle all that number of shares to dispose of 150,000 shares?

Mr. BREEN. You do, Senator. You have to be prepared to buy as well as to sell. You can not just go in and be a seller all the time. If somebody wants to sell stock, you have to be prepared to take it.

Mr. GRAY. That is what we are after, and the reason for that is in order that you can keep up your price on an active market in order that you can ultimately dispose of your own stock, is it?

Mr. BREEN. Yes, sir; but—

Mr. GRAY. Purely manipulation, isn't it?

Mr. BREEN. Not at all.

Mr. GRAY. What do you call it?

Mr. BREEN. Call it buying and selling, the same as in the bond market; no difference.

Mr. GRAY. If you have a lot of stock, you have a quarter of a million shares of stock to sell, what legitimate reason is there if you have something to sell to go out and buy in opposition to it?

Mr. BREEN. I am trading in the market. I might be making quarters and half points in there.

Mr. GRAY. And that is your reason, is it?

Mr. BREEN. Yes.

Mr. GRAY. Why do you go and sell a hundred thousand on the very first day when you have only got an option on the amount that you had?

Mr. BREEN. I answered that. You sell when the demand is good in any market.

Senator FLETCHER. I understood you to say that you could cause a stock to go up or down by your operations.

Mr. BREEN. You can, Senator; with enough buying power anything would go up.

Senator FLETCHER. In that sort of a market you can not have it go down very well?

Mr. BREEN. This particular case was unusual. I mean that stock would have gone up irrespective of anybody. If this stock had not been sold, it might have been sold at \$200 a share.

Senator FLETCHER. How do you manage to manipulate the market so as to have stock go up or go down as you see fit?

Mr. BREEN. You don't manipulate, Senator. You buy it—there are various ways. This does not happen to be a pool. This is just a trading account. There is a difference.

Mr. GRAY. Four members is a trading account and six is a pool?

Mr. BREEN. That is not the difference, Mr. Gray.

Mr. GRAY. What is the difference between a syndicate and a pool?

Mr. BREEN. Well, you know. A pool is a pool of interests where each one puts up an amount of money with a definite purpose of accumulating stock and selling at a profit.

Mr. GRAY. That is a good definition.

Mr. BREEN. You stated that there was no money put up.

Mr. GRAY. There was no money put up and therefore it is not a pool?

Mr. BREEN. It is not a pool, not a syndicate. It is not a pool at all. There is no amount in there for anybody.

Mr. GRAY. That is just what I thought. As a matter of fact, what was the profit that was made by you there? Have you got the figures there?

Mr. BREEN. \$1,351,152.50.

Mr. GRAY. You got three hundred thirty-seven thousand and some odd apiece?

Mr. BREEN. \$337,788.13.

Mr. GRAY. And on the face of the agreement outside of the moral risk that you said that you assumed because of the ethics of the stock exchange profession, you did not risk a cent, did you?

Mr. BREEN. I could hardly say that.

Mr. GRAY. Let me ask you another question: You say that there was a market for this all the time?

Mr. BREEN. Yes, sir.

Mr. GRAY. Why didn't Spreckels sell it in the market?

Mr. BREEN. He could have just as well as I did, at better prices.

[Laughter.]

Mr. GRAY. Let me not misunderstand that. So you gentlemen were able to take away from Mr. Spreckels—

Mr. BREEN (interposing). I don't know what was in his mind, Mr. Gray. Maybe he didn't want to appear as a seller.

Mr. GRAY. Yes. In other words, he was willing to lose that which he could have made just as you did, a million and a half.

Mr. BREEN. There is not any question about it. He could have sold it just as easily.

Mr. GRAY. And sold it himself?

Mr. BREEN. Absolutely.

Mr. GRAY. And you think the fact that you bought and sold it during that period of time had absolutely nothing to do with the rise in the price from 74 to 98 in a period of five weeks?

Mr. BREEN. No, Mr. Gray; it did not.

Mr. GRAY. Where did that stock go after you stepped out of the market?

Mr. BREEN. I don't know exactly. I didn't look it up.

Mr. GRAY. I mean immediately thereafter.

Mr. BREEN. Oh, it fluctuated around in there. I wouldn't say it went higher or lower. I wouldn't say that.

Mr. GRAY. I am going to, if the committee pleases, give them the exact data. I got these sheets last night as our final examination of it, in order that we could make our summaries, and I will give the committee the exact data as to what Kolster Radio sold for, the high and the low, on the market for a period of two weeks before this

operation started and for a period of two weeks after this operation quit, so that you can see the picture for yourself, as I showed it to you in Radio this morning.

Senator BLAINE. What was the total Kolster Radio issued?

Mr. GRAY. Can you answer that?

Mr. BREEN. The total issued was eight hundred thirty some odd thousand shares; a million authorized.

Mr. GRAY. While Mr. Spreckels controlled in this particular instance, as shown by the options, irrespective of any other stock that he may have had that we do not know of in this record, 250,000 shares of it?

Mr. BREEN. Yes.

Mr. GRAY. Do you know whether E. F. Hutton got commissions from this transaction? Your profit was net, of course?

Mr. BREEN. I haven't any idea.

Mr. GRAY. You would accept that statement, and I suppose counsel for Hutton & Co. will, that it was \$182,760 as commission on these transactions of Mr. Breen's alone in the period of time that was mentioned.

By the way, some of your stock, too, you had to give away at a lower price than the market, didn't you?

Mr. BREEN. Yes, sir.

Mr. GRAY. Do you know approximately what that stock was?

Mr. BREEN. I don't know what it was specifically, but I know why it was given.

Mr. GRAY. Well, I want you to, because that will turn up on this record, and I don't want anything that is not clear.

Mr. BREEN. Alexander had committed himself to give that stock in some way for having been introduced to Spreckles. It is one of those commission affairs or something.

Mr. GRAY. In other words, somebody first put Alexander on the matter?

Mr. BREEN. Yes, sir.

Mr. GRAY. Then Alexander got you into the matter?

Mr. BREEN. That is correct.

Mr. GRAY. And you got Mr. Cutten and Mr. Fisher into the matter?

Mr. BREEN. Yes, sir.

Mr. GRAY. And when Alexander told you about the matter he said to you that "I have had to give a call"——

Mr. BREEN (interposing) Or an option.

Mr. GRAY. Or an option, the same as you had, "to somebody else who told this to me"?

Mr. BREEN. Yes.

Mr. GRAY. So that when the time came that price went up that person who introduced the matter to Alexander had a right to exercise control there and get stock which was then at a price cheaper than the market?

Mr. BREEN. Yes; and he did, too.

Mr. GRAY. And he did exercise it. Now, by the by, if there was such a market in this matter that you could go right out, the public was so anxious to get Kolster Radio and paid all these prices for it, and you had a chance to make this money, why did you bother

taking Cutten then and making a profit for him of \$337,000, and Fisher, making a profit for him of \$337,000?

Mr. BREEN. Well, there are reasons. I had been in profitable operations with them.

Mr. GRAY. Just generosity?

Mr. BREEN. I would hardly call it that. As I told you, in the first instance here, I had a possible liability here of 30,000 shares.

Mr. GRAY. In other words, it was not so sure that the public was going to take this up?

Mr. BREEN. No; it was not sure. Nothing is sure.

Mr. GRAY. What did you do to help the public pick it up?

Mr. BREEN. I didn't do anything in this instance.

Mr. GRAY. Nothing at all. I think that is all.

Senator FLETCHER. All you did was to watch the market from day to day and either sit by or sell as your judgment dictated?

Mr. BREEN. Yes. It was very wild, and you couldn't even do that, Senator. The tape was running a half to an hour late each day.

Senator TOWNSEND. Did you give the orders yourself?

Mr. BREEN. No, I gave them to a specialist.

Senator TOWNSEND. You just gave the broker discretion to use as he saw fit?

Mr. BREEN. Yes.

Mr. GRAY. You paid no attention to it after you got it started except just look it over once in a while?

Mr. BREEN. I paid attention to it, sure.

Mr. GRAY. I mean you never gave an order yourself at a direct price either to buy or sell?

Mr. BREEN. Not that I recall.

Senator BROOKHART (presiding). The committee will recess until 10 o'clock to-morrow morning in the other room.

(Whereupon, at 5.20 o'clock p. m., the committee adjourned to meet at 10 o'clock a. m., the next day, in room 301, Senate Office Building, Friday, May 20, 1932.)

