

March 7, 1945.

The March issue of Fortune contains an article entitled "The Wall Street Situation", which cites what is stated to be an actual case of a speculator who got in and out of the market on a number of low priced stocks between 1942 and the end of 1943 that were moving upward along with the general trend of the market. It shows how this speculator ran less than \$2000 of his own money up to \$250,000 by the end of 1943, and that if he had held on to his profits to take advantage of the 1944 highs, he would have had \$1,200,000. The article states:

"A speculator named Morris Blumberg, who has bought and sold in these and other stocks, says he has done much better, and modestly remarks that somebody else might have done better still. In other words, a few thousands could have been run up into millions.

"What may seem even more remarkable, around 75 per cent could have been kept after income taxes. The tax law since 1942 has said that money realized from the appreciation in securities held for more than six months is taxable not as income, sometimes over 90 per cent, but as a capital gain, at a maximum of 25 per cent."

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TO - Chairman Eccles  
FROM - Mr. Thurston

The March issue of Fortune contains <sup>an</sup> ~~a most striking~~ article entitled "The Wall Street Situation", ~~the psychological effect of which is very likely to whip up interest in stock market speculation because it gives a number of instances of tremendous profits realized by skilful speculators taking advantage of the capital gains tax loophole.~~ The editors are evidently aware of this because the article is headed by a warning in large type which reads, "Any mention of securities in the document ~~hereunder attached~~ is not to be construed as a suggestion to invest or speculate in same."

*which cites*  
The article ~~points out that we are witnessing "the second longest bull market (after that of the 1920's) in the twentieth century".~~ It begins by ~~citing~~ <sup>what is specifically stated to be an actual case of a speculator</sup> who got in and out of the market on a number of low priced stocks, that were moving upward along with the general trend of the market. It shows how this speculator ran less than \$2000 of his own money up to \$250,000 by the end of 1943 and that if he had held on to his profits to take advantage of the 1944 highs, he would have had \$1,200,000. The article states, "A speculator named Morris Blumberg, who has bought and sold in these and other stocks, says he has done much better, and modestly remarks that somebody else might have done better still. In other words, a few thousands could have been run up into millions."

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After stating that the capital gains tax has been criticized as a deterrent to the flow of capital, the article remarks that, "But it did not deter the speculators much. Whenever possible, and especially after their appreciation was sizeable, they kept their securities for six months. Since prices were almost uniformly on the rise, this was both easy and pleasant."

The article significantly points out, although doing so as if it were in the past tense, the fact that "there were reasons for suspecting that the boom, if not stopped by Government action, might last. Deprived by high personal income taxes of the stimulus to invest, people were waking to the fact that the capital-gains tax was different. Never had they had so much money, so little to spend it on, and so little incentive to save it. Cash in circulation -- or in the pocket -- was about \$25 billion, more than five times the 1929 figure, and demand deposits were some \$69 billion, more than three times the 1929 figure. Investors, indeed, were still able to pay for a big part of their securities in cash. Few new stocks had been issued. And when the Government closed race tracks and clamped down on sports, when it made its gloomy and hence inflationary predictions of consumer shortages without taking firm steps to keep down living costs, it probably made a risk investor out of many a bank depositor or bond owner."

The article gives a good many highly illuminating instances of how smart money has taken advantage of the capital gains tax loophole, frequently operating in unlisted as well as listed securities, and recognizing that the Government's war expenditures would make what had been a collection of dogs and cats highly profitable for speculative operations.

There is one additional quotation from the article which is worth particular attention: "We have noted that the great majority of Wall Street people live on securities trading. The trading set-up depends on volume, volume depends on the prospects of a market rise, and a market rise worth anything must be preceded and followed by a fall. No matter how much Wall Street suffers in depressions, in a sense it also depends on depressions. If the economy can be rigged to eliminate or cushion depressions, there will be less room for securities to fluctuate."

A handwritten signature, possibly "J. W.", is written in black ink above a horizontal line.