

New York, N.Y.
April 3, 1936.

Dear Hart:

I really feel quite badly about the poor correspondent I have turned out to be, since our very enjoyable luncheon engagement at Christmas. However, I think you can realize from my recent letter and from the fact that I have not been playing any tennis or ping-pong that I have really been busy. I have looked out for you constantly in the market, however, and have seen no particular reason to alter your present holdings. The Kelvinator which I purchased at 19-1/8 a considerable time ago appeared to me to be a very sound purchase for a move to about 35 to 40 by the middle of June when the first quarter earnings should have made their appearance. If what I hear about the company is anywhere near accurate, that should be a very reasonable price for the stock. It has been quite slow and outside of the active buying of one large floor professional, Mr. A. H. Caspary, who has been the dominant factor in Chrysler over the past two years, there has been little outside interest. In the event that this accumulation continues, I am contemplating doubling up our commitment with the hope of perhaps doubling our money.

The general situation has been quite good. Professionals have been bearish almost from the first of the year and have been constantly selling short on all rallies. This has provided an excellent cushion for what would otherwise be a disastrously thin market and has kept things moving nicely. As long as a good portion of the financial community continues cautious and bearish, there is no need to fear a serious market reaction. The little man in the country at large seems to be quite bullish on stocks and buys them on almost all dips. The real market problem naturally centers around the extent to which the excess reserves of the member banks is flowing into investment channels. As you well know since February 1934 the Reserve Banks have bought no Government bonds in the open market and the excess reserves nevertheless have risen to nearly \$3,000,000,000. At the time the Government bond buying program ceased, these excess reserves stood at approximately \$800,000,000 which would not be considered a particularly large sum for floating a recovery movement. In other words, since February 1934 about \$2,200,000,000 of gold has flowed into this country from abroad. With conditions as unsettled as they are in Europe, it looks as though this gold would continue for some time as a time deposit, but nevertheless it must be treated by all intelligent persons as a demand deposit. As long as no particularly large portion of this money flows into either the stock or bond market, no serious danger can possibly ensue. From careful checks which I have made of the larger houses in Wall Street I am convinced that no such broad movement has occurred as yet and that the major portion of the upswing in the markets is a direct result of the flow of idle funds in the hands of investors into the market.

It might be of considerable interest to you to know that at the time the margin requirements were raised, I was asked by a member of the then Federal Reserve Board what effect I thought it would have on the stock market. My reply at the time was that I thought it was a good thing from a longer term policy because I believe the less speculating people do on borrowed money, the better off we all will be in the long run, but,

if this were being done in order to curb a speculative tendency on the part of the people, it not only would not decrease the amount of speculation but would almost certainly cause an important market rise. That is exactly what happened and within forty-eight hours of the time the margin requirements increase was announced, the market rose nearly ten points in the Dow Jones averages. The Business Conduct Committee of the Stock Exchange informally checked the purchases at that time and discovered the bulk of them to be by bona fide investors for cash who entered the market almost immediately after the announcement was made. There seems to be no evidence whatever that any considerable portion of the gold inflow from abroad is represented in either the stock or the bond market.

Turning again to the business picture, it is remarkably favorable. Several of my old friends in the Department of Commerce who are notoriously bad judges of the stock market but first class judges of business are more optimistic about conditions generally than at any time since I have been checking with them. The flood was naturally a retarding influence on steel operations and caused a great deal of damage at a time when a mild boom appeared to be developing, but the retardation appears to have been quite temporary and the rise in steel productions to 62% last week is evidence of how short the rebound has been. One of my very good friends who is head of the Research Laboratory of the United States Steel Corporation tells me he would not be surprised if the steel rate should move up to 72 to 75% by the middle of June. Easter retail buying is better than at any time since I have been watching it and people are spending money more freely than is probably good for them. Still it all makes for business. The one very discouraging side of the picture and one which will have considerable political importance later in the year is the fact that unemployment is not decreasing in any measure commensurate with the improvement in business. The people who have jobs and have succeeded in the weathering the depression seem to be relatively better off, in many instances even better than they were in 1929 except insofar as the payment of taxes is concerned, but a great deal of industrial expansion seems to be occurring without any particular reemployment need whatever. I am inclined to think that this may not be as serious as it appears at the present because there is always a lag in such a recovery, but this lag will have to be taken up sooner or later or the whole purpose of government spending will be nullified. Reliable figures still seem to indicate that between 15 and 20 million people are still on some form of relief and a great many of them apparently have no particular desire to alter their status, so that it becomes a definite state and national budgetary problem.

The political picture in Washington has changed very definitely in a manner favorable to Mr. Roosevelt. He was warned some time ago that he was talking too much and it now looks as though Al Smith's speech marked the low point of his downward swing. The reaction to Smith's speech for the first few days was definitely adverse to Mr. Roosevelt but when people began to read the speech an editorial comment began to seep out into the country districts. The very shrewd association in these comments of Mr. Hearst, the Liberty League and the DuPont interests gradually turned it into a boomerang. Within a month of the time it had been delivered, it became one of the strongest factors for returning Mr. Roosevelt to favor. Within the last few weeks, even some of the most bitter Republican politicians are becoming more and more inclined to concede his reelection. In fact this is so much true in the East and in the informed Washington circles that strong supporters of Mr. Landon and Mr. Knox are quietly withdrawing and urging those individuals to do the same. In fact, some of them go so far as to sincerely believe that the best interests of the Republican Party will be served by putting up a weak candidate who will do a good deal of

talking about the Constitution, rugged individualism and State's rights, and then will be snowed under in a large presidential vote for Mr. Roosevelt but will provide an adequate background for the re-election in the Republican districts of Republican Congressmen and Senators. Their feeling is that whoever is elected this time is almost certain to be intensely unpopular by the election of 1940 and that it would be much to the advantage of the Republican Party to let Mr. Roosevelt get the credit for present prosperity such as it is which almost all of them look on as a temporary phase which cannot last much beyond 1937 or 1938 at the most and which will be blamed for its collapse indubitably on whoever is president at the time. This is an interesting tack from the political angle and it will be very amusing to watch developments in the next three months.

The tax proposals are another evidence of Mr. Roosevelt's political sagacity. He succeeded in pulling the revision out of the hat at a time when tremendous increases in taxation in other directions were contemplated. It was thought at first that the House would pass the measure with very little deliberation and that the Senate would battle it out until about the first of June, when with considerable revision, it would be passed. Now, however, it looks as though so much opposition has been aroused that it is going to have a stormy passage through the House with considerable revision there and it may take so long in the Senate that the President will be in the position of getting about what he wants or else keeping Congress in session all summer which very few of them would be willing to consider with the primaries such a short time off. To me it is a splendid political move and while Mr. Roosevelt is fishing, the Liberty League, the Anti-Roosevelts, the Tories and all the other reactionaries are stewing in their own juice while he has the attitude of a man who has done his best to work himself out of a bad situation but is now being hampered by the opposition of the vested interests to something which must necessarily be a personal matter. To summarize these random observations as seen from my Eastern Washington viewpoint, I think Mr. Roosevelt is a 3 to 1 bet for re-election so long as he keeps his mouth shut.

As to your holdings at the present time, I still think that Ulen will do better if given a chance and have in contemplation the price of about \$15 for it. My recollection is that we purchased it at $4\frac{1}{2}$ or $4\frac{1}{4}$ and I think we should realize at least 100% profit on it. The Nickle Plate is acting very well and if the market is to have any further rise, the rails must step into the breach shortly and I think a price of \$40 to \$45 should be obtained. I am sorry that we did not get back into Allis-Chalmers as it has done very well, but at the time I purchased the Kelvinator, Allis was already up about four points over the price we sold it at, and it did not look particularly attractive on a yield basis at that figure. However it has carried along with General Electric and Westinghouse but at the figure of 50, I cannot consider it a bargain. I note that you have made several additional deposits in your account recently and therefore have added them to my list.