New York, N.Y.
May 27, 1936.

Dear Marty:

Since I have been back I have learned nothing which would alter my opinion expressed to you in St. Louis, that the next major move in the market should be up. Most Wall Street analysists and a great many stock market seers are very bearish and have even taken small short positions as a result of the May reaction. My own charts point to retracement already accomplished of about one half the drop from the 162 level and have made a Dow line for the past three weeks considerably above the 143 low point. The drop-off in the last two weeks has been accompanied by extreme dullness and a considerable sprinkling of short selling. Meanwhile general business continues better than average and electric power production and railroad carloadings seem destined to make new highs before the end of the summer. Railroad carloadings in particular are showing a marked contra-seasonal improvement and one of the analyists for the R.F.C. tells me that he expects continued improvement into late September.

Brokers generally have been very blue and this has naturally contributed to bearish sentiment on the part of their clients. There is no particular reason that I can see why they should be so blue. Stock market volume dropped from about an average of a 1,500,000 shares to about half that amount in the month of May and the average Commission House lost a little money. It is the old story of feast or famine and a great deal more importance has been attached to the new margin requirements than it seems to me is warranted by the facts. In fact I am inclined to believe that the White Weld incident has had more to do with stemming the flow of speculation than the margin accounts. Personally, I think the new margin requirements are thoroughly satisfactory and a step in the right direction. There will be a considerable howl that it is discrimination against the little man and Mr. Gay has appeared before the Federal Reserve Board twice with this silly argument. If defending the little man against himself is discrimination, then I can only say I hope we have more such discrimination. The chances of a small man really making some money are considerably heightened by his being forced to trade on a 55% margin and having his account become restricted when it falls below that amount, up to the 30% limit prescribed by the Stock Exchange when it would be necessary to sell his account out were he to fail to add additional funds. Some of the provisions and Regulation U are absolutely unworkable and the confusion resulting has caused a great many Brokers and Dealers who are afraid of their shadows because of the three actions now pending before the S.E.C. to become very blue. This morning the Union Bag & Paper Company succeeded in selling the balance of its unsubscribed stock on the rights recently issued to stockholders through a syndicate which purchased the balance from the original underwriters and then redistributed the shares to another underwriting group which was protected by a put and call arrangement with one of the stock exchange houses, Cyrus J. Lawrence & Co. and have done very well. They are compelled by the rules of secondary distribution to maintain a market at the last sale price on the New York Stock Exchange at all times equal to the amount of stock they are offering off the exchange. The reason for this is obvious as otherwise there would be discrimination against the individual who failed to see the advertisement in the paper and proceeded to attempt to buy stock in the open market, although some 30,000 shares were offered by the

Syndicate. In the event that 100 shares of this stock were sold on the big board, under one clause of Regulation U, the entire loan against the underwriting would become amenable to the 55% margin requirements instead of the existing 85% of the debit permitted on new loans for security issues. This technicality will obviously be worked out in time and I have talked to several members of the Reserve Board and find them thoroughly reasonable and willing to cooperate. For political reasons they would rather not take any action at the present time, but are perfectly willing to wink at any violations of a technical nature. Furthermore, in this particular underwriting there was no need for the firms to get so excited as they had adequate capital to float it even on the latered status. General harassment resulting from such incidents plus the restricted volume of trading has caused the financial community to become very blue and in addition, stock market analysts feel that earnings do not justify present prices and cite the coming election as being an unsettling influence in the market generally.

Prospects for early adjournment of Congress continue bright. However, last night Mr. Roosevelt stated in no uncertain terms that he would not approve of the Senate revisions to the tax bill. He has said in so many words that he is not particularly interested in how they raise the money but he must have the full amount. The Senate faced with the impossibility of getting the House in an election year to raise the normal income tax rate from 4 to 5% cannot possibly raise the revenue required without resorting to additional corporation taxes. I do not see any way out of this and think Mr. Roosevelt is rather pleased that the surplus tax provisions will probably now have to be invoked. It is interesting to note the stupidity of most of our Chambers of Commerce in that they are now fighting the revised Senate tax bill almost as hard as they did the original bill which will just make it easier for both Houses of Congress to agree to pass anything between now and the 5th or 6th of June when they all hope to adjourn. My own guess at adjournment is that it will take place about a week later, being closer to the 15th or 20th of June than to the present advertised 5th or 6th. Most of the other bills have had so many riders attached to them and have been referred to so many sub-committees that it is almost impossible to discover even from a Senator or Congressman what has become of them. For example, I recently attempted to learn the status of the Ellenbogen Textile Bill and found that it had been approved in both Senate and House sub-committees but had been added as a rider to the second part of the Frazier-Lemke Bill which was recently defeated and hence would have to be reintroduced in its entirety in order to come to a vote. In short, the Bill is dead. From the legislative standpoint Brokers should be quite pleased because it now seems apparent that whatever recommendations as regards Broker-Dealer segregation which the S.E.C. might make to Congress could not possibly be acted upon this session even though there is general approval. I have read sections of the entire report and think it likely that nothing whatever will be done at this time. This in itself should cause some speculative stirring in the summer months ahead and my guess would be might produce a mild amount of rigging between the nominations and the actual election.

Mr. Lehman remains adamant in his decision not to re-run for Governor of New York and I think he will stick to it. I recently attended the funeral of his brother, Arthur Lehman, with whom as you know I was quite intimate and his wife told me at that time that they were fed up with politics and planned to retire entirely. I think he feels that Lehman Brothers are in a bad way so far as continuing the firm under the family domination and that with the liquidation of his brother's estate, it would be more desirable from a great many personal angles for him to be on the scene. The pressure which will be placed on him from Washington and other sources to run will be enor-