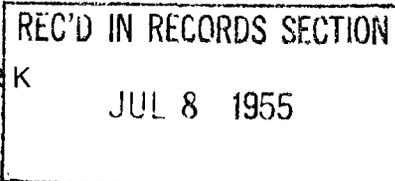


FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, N.Y.

RECTOR 2-5700



June 29, 1955

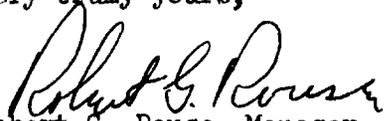
Hon. William McChesney Martin, Jr.
Chairman of the Federal Open
Market Committee
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Mr. Martin:

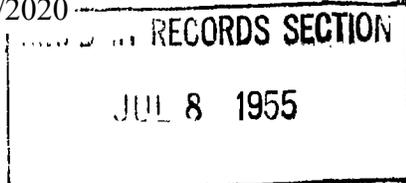
The enclosed memorandum prepared in the Securities Department of this bank contains pertinent data taken from the financial statements of the twelve non-bank dealers in United States Government securities with whom business for the System Open Market Account has been transacted within the past year. The memorandum also contains a discussion of such operating results of the dealers as are available.

It is hoped that you will find this material of interest.

Very truly yours,


Robert G. Rouse, Manager
System Open Market Account

Enclosure

CONFIDENTIAL -- (F.R.)

Financial and Operating Data
 United States Government Securities Dealers
 Year 1954

Financial information relating to the twelve non-bank dealers with whom business for the System Open Market Account has been transacted within the past year, based on the most recent statements available to us, is given in the attached statement entitled "Comparative Schedule of Balance Sheet Data of United States Government Securities Dealers".

Earning reports are volunteered by only a few dealers, but the substantial improvement in net worth reflected in the balance sheets of all but one of the dealers indicates that operations have continued to be generally profitable. This has been confirmed orally by several of the dealers.

Brief comments relating to the operating results of each dealer follow:

First Boston Corporation

The First Boston Corporation furnished the following operating results:

	<u>1953</u>	<u>1954</u>
Net Income Before Dividends	\$2,858,000	\$3,172,000
Dividends	<u>2,250,000</u>	<u>2,813,000</u>
Net Income After Dividends	<u>\$ 608,000</u>	<u>\$ 359,000</u>

The corporation's activities are broadly diversified, and there is no indication as to what portion of earnings resulted from activities of its United States Government securities department.

C. J. Devine & Co.

The increase of \$1,394,000 in net worth reflects profitable operations. A mercantile agency report dated October 1, 1954 states that a progressive and profitable operating trend prevailed up to that time. No changes in the partners have occurred.

Salomon Bros. & Hutzler

Mr. Rudolph Smutny, Partner, advised us on November 4, 1954 that operations up to that point in 1954 reflected the best year's operations in the firm's history. He attributed successful operations to all departments of the business, mentioning that they had made about \$2,000,000 in trading in United States Government securities. The \$1,059,000 increase in net worth might have been larger except for the withdrawal of a deceased partner's interest on February 1, 1954 (a reserve of \$529,000 for the retirement of this partner's interest was included in net worth as of January 2, 1954).

Discount Corporation

Discount Corporation provided the following operating figures:

	<u>1953</u>	<u>1954</u>
Net profits after provision for taxes and contingencies	\$948,718	\$1,164,246
Dividends	600,000	700,000
Special reserves	180,000(a)	300,000(b)
Addition to undivided profits	168,718	164,246

- (a) For investments.
- (b) For past service benefits arising from amendment to the corporation's retirement plan eliminating employee contributions.

C. F. Childs & Co.

The increase in net worth of \$334,000 indicates profitable operations. Mr. C. F. Childs, head of the firm, died in March 1955 leaving control in the hands of his son F. N. Childs. We have been given to understand that the firm will continue operations under the latter's guidance, although he does not expect to take an active part in the operations. There will probably be some rearrangement of the assignments of the senior operating officers looking toward the development of stronger leadership and better customer contacts.

Aubrey G. Lanston & Co., Inc.

There was a decline in capital accounts of \$192,500 between April 30, 1954 and April 30, 1955 as shown in the following summary.

(In thousands of dollars)

	<u>4/30/54</u>	<u>4/30/55</u>	<u>Change</u>
Debenture Bonds	1,559(a)	822(b)	-737
Capital Stock - Class A. Cum.	18	18	-
" " - Common	47	48	+ 1
Capital Surplus	0.5	29.5	+ 29
Earned Surplus	<u>1,524.7</u>	<u>2,039.2</u>	<u>+514.5</u>
	<u>3,149.2</u>	<u>2,956.7</u>	<u>-192.5</u>

- (a) Includes \$737 thousand due within 1 year.
- (b) Includes \$50 thousand due within 1 year.

Only that portion of the debenture bonds due in over one year has been included in the net worth figure shown in the attached table (that portion due within one year being treated as a current liability). The increase in net worth of \$494,500 is due principally to an increase of \$514,500 in earned surplus, which reflects profitable operations mostly, we believe, in Government securities. Two notes on the balance sheet as certified by Haskins & Sells should be mentioned: --

1. The net unrealized depreciation in Treasury securities as at April 30, 1955 was \$690,577.90.
2. The balance sheet asset item "Receivable under Repurchase and Resale Agreements" - \$1,702,835.46 has the explanatory note that it represents the net receivable for transactions on behalf of officers and directors; on statement date the net market value of the securities purchased and sold were \$7,895,806.25 and \$5,979,375.00, respectively.

New York Hanseatic Corporation

In October Mr. O'Kolski, Vice President, advised us that they are continuing to operate the Government securities end of their business at a profit. In the year ended October 31, 1954, earned surplus increased \$45,612. This increase, together with the proceeds from the disposal of \$91,250 of the corporation's stock held in the Treasury, accounted for the increase of \$136,862 in net worth which took place during the year. In May 1954 the subject company purchased the physical assets of Eastern Securities Inc., including the unexpired lease at 120 Broadway and three branches, but not its trading account. The officers of the corporation anticipate that the expanded facilities will produce a more stable volume of business.

In May 1955 we were advised that the company planned to sell \$140,000 worth of Treasury stock and \$650,000 of serial notes (not subordinated) maturing in 18 months to five years. While their capital funds had been adequate to handle their business, they feel that the expansion of their offices and the increase in volume of business will require the maintenance of larger bank accounts. The new funds will come from an English firm with whom they have close connections.

D. W. Rich & Co., Inc.

The company showed an increase in earned surplus of \$186,000 during their fiscal year, apparently as the result of profitable operations, although how much of the earnings were from the securities and how much from the textile end of the business is not known. In view of the unusual corporate relationships in this picture, and particularly of the fact that the company is active in the textile, as well as in the Government securities business, the company's net working capital is probably a more appropriate measure of their financial capacity than the net worth of \$1,365,000. Net working capital was \$354,000 on October 31, 1953 and \$205,000 on October 31, 1954, which is a far from adequate basis for the company's sizable activities in Government securities, including repurchase agreements

with the Federal Reserve. However, recognition can be given to the value of assets of wholly owned subsidiaries, consisting of listed stocks having a market value about \$1,300,000 more than the carrying value of the subsidiaries on the books of the parent company. These values cannot be lost to the parent company without our knowledge since a local bank, which holds the stock as collateral to loans to the subsidiaries totaling \$29,000, has agreed to inform us when any of the stocks are released from collateral. We have, therefore, made allowance for these additional values in conducting our business with the company.

C. E. Quincey & Co.

No recent information concerning the operating results of this firm is available. A mercantile agency report dated May 4, 1954 reports a profitable trend, which appears to be confirmed by the increase in net worth of \$324,000 between October 31, 1953 and June 30, 1954, the dates of the most recent financial statements in our files.

W. E. Pollock & Co. Inc.

An increase in surplus of \$174,179 during the year 1954 we believe resulted from earnings.

Briggs, Schaedle & Co. Inc.

The November 30, 1954 balance sheet shows earned surplus of \$533,000, as compared with \$354,000 on November 30, 1953, an increase of \$179,000. According to a mercantile agency report dated November 22, 1954, operations have been progressive and profitable.

J. G. White & Co. Inc.

The company has advised us that for the first seven or eight months of 1954 they had a very substantial profit, sufficient to more than erase the \$91,000 deficit in earned surplus indicated in their January 31, 1954 balance sheet. An interim statement as of March 31, 1954 showed a net worth of \$238,000. However, in the last few months portfolio losses in U. S. Government securities offset substantially all of the earlier gains so that the net reduction in the deficit for the year ended January 31, 1955 amounted to only \$11,000; this resulted from net income of \$37,000 and dividend payments of \$26,000. Furthermore, because of the retirement of 126 shares of preferred stock (\$12,600) and \$50,000 of 4 1/2% notes payable to White Securities Corp. which anticipated part of the final instalment of these notes due February 1, 1956, there was a net reduction of \$49,000 in capital accounts as shown in the following table:

(In thousands of dollars)

	<u>1/31/54</u>	<u>1/31/55</u>	<u>Change</u>
4 1/2% notes	74	24	- 50
4 1/2% pfd. stock	112	100	+ 12
5 % pfd. stock	121	121	-
Common stock	1	1	-
Earned surplus	- 91	- 80	+ 11
Unrealized net profit in trading accounts	<u>1</u>	<u>3</u>	<u>+ 2</u>
Total capital account	<u>218</u>	<u>169</u>	<u>- 49</u>

However, the \$24,000 4 1/2% notes payable outstanding January 31, 1955, because they mature within one year and are now classed as a current liability, have not been included in our calculation of net worth, so that the reduction from the net worth figure for January 31, 1954 shown in the attached table amounts to \$73,000.

The company's statement of condition does not reflect an unrealized loss of \$60,000 on the basis of the market value of unsold securities held as a participant in a joint account on January 31, 1955. Subsequent to the statement date the officers have made \$30,000 available for the use of the company but are reluctant to place this money in the company on a formal basis as they believe future earnings will make it unnecessary. The company's unsatisfactory situation has been discussed with its officers who were told that certain dealings with the Reserve Bank would have to be more restricted until improvement is shown.

Apart from J. G. White and Company, the capital position of the above dealers appears adequate.

Federal Reserve Bank of New York
Securities Department
June 27, 1955

Confidential -- (F.R.)

COMPARATIVE SCHEDULE OF BALANCE SHEET DATA OF U. S. GOVERNMENT SECURITIES DEALERS

(thousands of dollars)

	Statement Date	Net Worth*		United States Government Securities					
		Amount	Change During Previous 12 Months	Total Portfolio	Due or Callable		Due or Callable over 1 Year		Other Securities Owned
					1 - 5 Yrs.	Over 5 Yrs.	Total	Number Times Net Worth	
First Boston Corp. (a)	12/31/54	22,513	+ 359	159,352	14,700	-2,100	12,600	.6	25,340
C. J. Devine & Co. (b)	12/31/54	11,320	+1,394	55,134	45,360	4,538	49,898	4.4	35,992
Salomon Bros. & Hutzler (a)	10/ 1/54	8,770	+1,059(d)	194,067	70,200	9,900	71,100	.8	120,470
Discount Corp.	12/31/54	7,023	+ 164	115,327	8,100	3,800	11,900	1.7	-
C. F. Childs & Co. Inc. (b)	12/31/54	5,851	+ 334	68,700(g)	2,100	-2,800	- 700	-	(g)
Aubrey G. Lanston & Co. Inc. (b)	4/30/55	2,907(e)	+ 495	61,793	(h)	(h)	(h)	(h)	850
N. Y. Hanseatic Corp. (a)	10/31/54	2,061	+ 137	41,402	25,300	-1,800	23,500	11.4	5,227
D. W. Rich & Co. Inc. (c)	10/31/54	1,365	+ 186	70,475	11,000	6,200	17,200	12.6	-
C. E. Quincey & Co. (a)	6/30/54	833	+ 324(f)	13,896	6,700	2,600	9,300	11.2	9
W. E. Pollock & Co. Inc. (a)	12/31/54	755	+ 174	42,140	2,300	- 600	1,700	2.3	880
Briggs, Schaedle & Co. Inc.	11/30/54	677(e)	+ 190	37,342	4,800	5,400	10,200	15.1	-
J. G. White & Co. Inc. (a)	1/31/55	145(e)	- 73	20,674	- 400	-1,900	- 2,300	-	122

(a) Also general dealer in securities other than U. S. Government securities.

(b) Also dealers in municipal bonds.

(c) Also holding company.

(d) Change since January 2, 1954, date of previous statement; fiscal year changed to October 1.

(e) Includes debentures or notes due in over one year.

(f) Change since October 31, 1953, date of previous statement.

(g) Not segregated, but believed to be mostly U. S. Government securities -- an informal daily report shows \$65,500,000 U. S. Governments.

(h) Not available.

* Or adjusted capital accounts.