

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, N.Y.

RECTOR 2-5700

REC'D IN RECORDS SECTION

JUL 7 1958

June 30, 1958

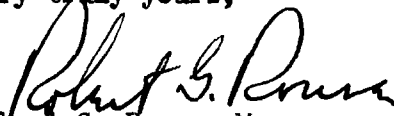
Mr. Winfield W. Riefler, Secretary  
Federal Open Market Committee  
Board of Governors of the  
Federal Reserve System  
Washington 25, D. C.

Dear Mr. Riefler:

There are enclosed ten copies of a memorandum prepared in the Securities Department of this bank containing 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 was transacted within the past year. Such operating results of the dealers as are available also are discussed.

This memorandum is being sent to each member of the Federal Open Market Committee.

Very truly yours,

  
Robert G. Rouse, Manager  
System Open Market Account

Enclosures

FOR FILES  
C. L. Schmidt

CONFIDENTIAL F. R.

REC'D IN RECORDS SECTION

JUL 7 1958

Financial and Operating Data  
 United States Government Securities Dealers  
 Year 1957

Financial information taken from statements submitted by the 12 non-bank dealers with whom we do business indicates that operations during 1957 were considerably improved over the generally disappointing results in 1956. While most dealers do not furnish income statements, a review of the attached schedule entitled "Comparative Schedule of Balance Sheet Data of U. S. Government Securities Dealers" reveals substantial increases in net worth, in the majority of cases apparently the result of profitable operations largely in the last quarter of the year. Brief comments concerning the results of each dealer's operations follow:

First Boston Corporation

The annual reports to stockholders for the year 1956 and 1957 furnish the following profit and loss information:

	<u>1956</u>	<u>1957</u>
Net income before dividends	\$ 3,154,375	\$ 3,542,913
Dividends	2,656,387	3,055,464
Net income after dividends	497,988	487,449

The report covering operations for 1957 gives no indication of the proportion of net income derived from dealings in U. S. Government securities as against income from underwriting and trading corporate, municipal and other securities.

C. J. Devine & Co.

No profit and loss figures were furnished. For the year ended December 31, 1957 net worth increased \$1,361,000 to \$14,176,000. This compares with an increase of \$557,000 in net worth in 1956.

Salomon Bros. & Hutzler

Operating results were not furnished.

The increase in net worth of \$6,153,000 shown in the attached schedule reflects the difference between the net worth figure of \$7,500,000 given in a condensed statement as of October 1, 1956 and the partners' equity aggregating \$13,653,000 as shown in the detailed financial questionnaire as of December 31, 1957 filed with the New York Stock Exchange. A partner has informed us that this increase in net worth reflects very substantial profits from operations, mainly in the last two months of the year.

Substantial reserves, marked available as additional capital, are included in the net worth figure in the December 31, 1957 questionnaire. There is a strong possibility that a substantial portion of these reserves may have to be withdrawn by September 30, 1958 (the end of the firm's fiscal year) to meet tax liabilities of the partners arising from the very large profits.

Discount Corporation

The following data are taken from the Corporation's annual reports:

	<u>1957</u>	<u>1956</u>
Net Profits *	\$ 1,164,221	\$ 475,908
Dividends	700,000	400,000
Contributions to Retirement Plan	189,206	-
Transfer to Undivided Profits	275,015	75,908

\* After provision for Taxes and Contingencies

Aubrey G. Lanston & Co., Inc.

Operating figures were not furnished, but earned surplus shows an increase of \$3,793,200 from a year earlier. The current statement reflects unrealized appreciation on securities of \$326,300. During the year all debenture bonds,

which had been outstanding in an amount of \$1,438,000 on April 30, 1957 were retired either by call or by sinking fund operations. Adjusted net worth increased \$2,702,900 during the fiscal year to \$4,729,800 as indicated in the following summary:

<u>Capital Account</u>			
(In thousands of dollars)			
	<u>4/30/58</u>	<u>4/30/57</u>	<u>Change</u>
Debenture Bonds	0	1,388	-1,388
Capital Stock - Class A, Cum.	18	18	-
"    "    - Common	47	47	-
Capital Surplus	13	29	- 16
Earned Surplus	<u>4,325.5</u>	<u>532.3</u>	<u>+3,793.2</u>
Total	4,403.5	2,014.3	+2,389.2
 <u>Less</u>			
Debenture Bonds due Within 1 Year	0	50	- 50
 <u>Plus</u>			
Net Unrealized Appreciation on Securities	<u>326.3</u>	<u>62.6</u>	<u>+ 263.7</u>
Adjusted Net Worth	<u>4,729.8</u>	<u>2,026.9</u>	<u>+2,702.9</u>

An asset item in the balance sheet - Receivable under Repurchase and Resale Agreements - which in the April 30, 1957 statement was \$13,137,785.97, was increased to \$21,448,964.98. A footnote to the April 30, 1958 balance sheet reads as follows:

"Represents the net receivable for transactions on behalf of officers and directors; the securities sold have a market value of \$22,328,700."

C. F. Childs & Company

No operating statement was submitted. During the year 1957 net worth increased \$865,000 which presumably reflects an operating profit. There has been

no change in the capital stock set up since the liquidation of the interests of Mr. Newell Child's two sisters early in 1956. The \$189,000 loan from an officer which appeared on the December 31, 1956 balance sheet is not shown in the current statement of condition.

New York Hanseatic Corporation

The firm's capital position on October 31, 1957 was substantially the same as that shown at the close of the previous fiscal period. We are informed that some profit was realized for the year, but such earnings were insufficient to cover the dividends paid and the result was an \$8,000 decline in net worth. It will be noted, however, that the statement date precedes the reversal in the trend of prices which occurred in mid-November and it is probable that subsequently there has been substantial appreciation on the securities held in position.

D. W. Rich & Co., Inc.

The October 31, 1957 balance sheet indicates profitable operations for the fiscal year, but there is no information available to determine to what extent either the securities or textile segments of the firm's activities contributed to the \$337,000 increase in earned surplus. Net worth showed an increase of \$237,000. This was after a decrease of \$100,000 in reserve for contingencies which reserve represents funds set aside in past years for Federal income taxes in excess of amounts payable as shown in tax returns. During the year ended October 31, 1957 net working capital increased from \$690,000 to \$1,112,000. The market value of listed securities held by wholly owned subsidiaries declined to \$2,760,000 as compared with \$3,210,000 at the close of the previous fiscal year. However, the \$775,000 carrying value of the subsidiaries' capital stocks in the parent company's balance sheet is still about \$1,980,000 less than their combined net asset value.

A local bank, which holds the stock owned by the subsidiaries as collateral to loans to the subsidiaries totaling \$27,000, continues an agreement to advise us of any change in the stocks held by them. Since statement date that bank has informed us of the pledging as collateral of an additional 1,700 shares of stocks of various oil companies with a current market value of approximately \$90,000. In our determination of the limitation placed on the firm's subscriptions to Treasury bills and on repurchase agreements, recognition has been given to the additional value of these stocks.

Wm. E. Pollock & Co., Inc.

The firm's statement of condition as of December 31, 1957 shows a net worth of \$857,000 as compared with \$739,000 at the close of 1956, an increase of \$118,000 for the year. The management reports that an additional \$50,000 was placed in a profit-sharing plan during the year.

Briggs, Schaedle & Co., Inc.

Operating results were not submitted, but the November 30, 1957 statement of condition reflects an increase of \$127,000 in capital account for the fiscal year; \$100,000 in earned surplus and \$27,000 in outstanding subordinated debentures due June 1, 1975. An unaudited statement of condition as of March 1, 1958 indicates capital account aggregating \$1,035,000, an increase since November 30, 1957 of \$314,000, of which \$308,000 was in earned surplus and \$6,000 was in debentures. Management advises that taxes on profits realized have been reserved for. As of April 9 they had a net appreciation on the books of about \$350,000; after provision for taxes at a 58% rate on this, an additional \$150,000 might be added to surplus.

Chas. E. Quincey & Co.

No profit and loss figures have been submitted and no information is available as to the result of operations. However, for the 17-month period ended October 31, 1957, net worth was increased by \$45,000. We understand that a substantial part of the firm's income was from trading activities in issues of Federal agencies.

Bartow Leeds & Co.

During the fiscal year ended November 30, 1957 net worth increased \$156,000 to \$370,000. Management advises that operations were successful with particularly good results in the last few weeks of the year. A more recent statement of the company's financial condition as of March 15, 1958 shows a net worth of \$733,000, an increase of \$363,000 since the end of November. Although the securities shown on the March 15 balance sheet were quoted at market as of that date, almost 95 per cent of the increase in net worth is said to have been realized in the course of trading subsequent to the statement date. The company's net worth as of March 31, 1958 is estimated to exceed \$800,000, of which all but \$35,000 represents realized profits. It is noted, however, that the profits accumulated since the close of the fiscal year on November 30, 1957 probably will be affected by substantial tax liabilities for which no provision had been made in the March 15, 1958 balance sheet.

Summary

Operating results, particularly since the sharp reversal in the trend of market prices in mid-November 1957, have led to substantial improvement in the capital position of the non-bank Government securities dealers. The net worth of Bartow Leeds & Company, which a year ago had seemed small as a basis

for sustaining sufficiently continuous and sizable positions to make markets, has increased substantially. The balance sheet of D. W. Rich & Company again shows improved liquidity, with the substantial excess of market value over carrying value of listed stocks held by wholly owned subsidiaries an additional factor justifying confidence.

Federal Reserve Bank of New York  
Securities Department  
June 30, 1958



Confidential -- (F.R.)

COMPARATIVE SCHEDULE OF BALANCE SHEET DATA OF U. S. GOVERNMENT SECURITIES DEALERS  
(thousands of dollars)

	Statement Date	Net Worth*		Net Position in U. S. 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)	12/31/57	24,009	+ 488	174,366	10,000	3,400	13,400	.6	36,648
C. J. Devine & Co. (b)	12/31/57	14,176	+1,361	222,383	99,386	24,912	124,298	8.8	24,540
Salomon Bros. & Hutzler (a)	12/31/57	13,653	+6,153 (g)	357,000	111,000	14,800	125,800	9.2	99,000
Discount Corp.	12/31/57	7,525	+ 275	163,072	27,500	13,000	40,500	5.4	0
Aubrey G. Lanston & Co., Inc.	4/30/58	4,730	+2,703 (h)	202,910	10,790	1,831	12,621	2.7	5,439
C. F. Childs & Co., Inc. (b)	12/31/57	3,679	+ 865	143,319 (k)	21,100	1,600	22,700	6.2	(k)
N. Y. Hanseatic Corp. (a)	10/31/57	2,668 (d)	- 8	20,426	8,300	5,300	13,600	5.1	14,245
D. W. Rich & Co., Inc. (c)	10/31/57	2,021	+ 237	101,334	11,271	-	11,271	5.6	7,847
Wm. E. Pollock & Co., Inc. (a)	12/31/57	857	+ 118	45,978	1,500	400	1,900	2.2	945
Briggs, Schaedle & Co., Inc.	(11/30/57	721 (e)	+ 127	16,981	6,200	2,400	8,600	11.9	0
	( 3/31/58	1,035 (f)	+ 314 (i)	3,756	600	7,100	7,700	7.4	7,500
Chas. E. Quincey & Co.	10/31/57	649	+ 45 (j)	12,543 (l)	2,500	1,000	3,500	5.4	(l)
Bartow Leeds & Co. (b)	(11/30/57	370	+ 156	8,055	NA	NA	NA	-	882
	( 3/15/58	734	+ 364 (i)	32,237	1,981	6,011	7,992	10.9	4,249

\* Or adjusted capital accounts.

- (a) Also general dealer in securities other than U. S. Government securities.
- (b) Also dealers in municipal bonds.
- (c) Also holding company.
- (d) Includes \$500,000 notes due in over one year.
- (e) Includes \$141,000 debentures due in over one year.
- (f) Includes \$147,000 " " " " " "
- (g) Change since October 1, 1956.
- (h) " " April 30, 1957.
- (i) " " November 30, 1957.
- (j) " " May 31, 1956.
- (k) Not segregated, but believed to be mostly U. S. Government securities - an informal report shows \$135 million U. S. Governments.
- (l) " " - an informal report shows \$3.9 million U. S. Government securities.

NA Not Available.

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