

SIMILAR LETTER SENT TO:

- Hon. C. Canby Balderston)
- " G. H. King, Jr.)
- " A. L. Mills, Jr.)
- " J. L. Robertson)
- " Chas. N. Shepardson)
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Member F.O.M.C. Board of Governors JUN 14 1961

REC'D IN RECORDS SECTION
JUN 14 1961

Mr. Alfred Hayes, Vice Chairman, F.O.M.C.
 Messrs. Allen, Irons, Swan and Wayne, Members, F.O.M.C.
 Messrs. Ellis, Bopp, Fulton, Bryan, Johns, Deming & Clay, Presidents.

May 26, 1961


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

Dear Mr. Martin:

In accordance with the practice of keeping the Federal Open Market Committee informed on the dealers with whom business is transacted for the System Open Market Account, the Committee is advised that Malon S. Andrus, Inc., New York, New York, has been added to the list of dealers with whom we transact business in United States Government securities for the System Open Market Account and for other accounts. This firm started business in February 1958 and has been reporting its operations to us daily since that time. It was included in the list of primary dealers in United States Government securities furnished to the Treasury in May 1960 and it also conducts operations in United States Government agency and municipal issues.

Enclosed is a memorandum relating to the financial condition and operating results for the year 1960 of the nonbank dealers in United States Government securities, including Malon S. Andrus, Inc., with whom business for the System Open Market Account may be transacted.

Very truly yours,


 Robert G. Rouse, Manager
 System Open Market Account

Enc.

<p>REC'D IN RECORDS SECTION</p> <p>JUN 9 1961</p>

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Financial and Operating Data
 United States Government Securities Dealers
 Year 1960

Information taken from balance sheets and reports to stockholders submitted by twelve of the thirteen nonbank dealers with whom System Account business currently may be transacted is shown in the attached statement entitled "Comparative Schedule of Balance Sheet Data of U. S. Government Securities Dealers". Included in this statement is Malon S. Andrus, Inc., which was added to the list of dealers with whom we transact business for the System Account, on May 17, 1961. The fiscal year of Aubrey G. Lanston and Company ends on April 30 and a supplementary report will be furnished when their statement is available.

Most dealers do not submit profit and loss statements. However, judging by dealers' comments and by the improvement in net worth as revealed in the balance sheets, 1960 was a very profitable year for all the dealers, much better than 1959 for most.

Brief comments concerning the operations of the individual dealers are given below:

First Boston Corporation

The profit and loss information furnished below was included in the annual reports to stockholders for the years 1959 and 1960:

(thousands of dollars)

	<u>1959</u>	<u>1960</u>	<u>Change</u>
Net income before dividends	2,869	3,008	+139
Dividends	2,600	2,581	- 19
Net income after dividends	269	427	+158

The reports do not segregate the net income obtained from operations in U. S. Government securities or from underwriting and trading in corporate, municipal and other securities.

C. J. Devine & Co.

The firm's management reported that 1960 had been a very good year, second only to 1958, with net income before taxes in the neighborhood of \$6,000,000. It was stated that the partners felt that they would not allow partners' capital to increase beyond the present figures because no need for additional capital is foreseen.

Salomon Bros. & Hutzler

The firm's management advises that in 1960 the firm made very large profits, particularly in the rising market in the first three months of the year. The increase of about \$2,000,000 in net worth between the year end and October 3, 1960, reflects roughly the amount of profits retained in the firm after taxes, or about 30 per cent of the gross profit realized during the period. It was said that no large withdrawals of capital were made during the period.

Discount Corporation

The annual reports to shareholders provide the following profit and loss information:

(thousands of dollars)

	<u>12/31/59</u>	<u>12/31/60</u>	<u>Change</u>
Net Profits*	1,087	1,315	+228
Dividends	950	1,100	+150
Transfer to Undivided Profits	137	140	+ 3
Transfer to General Reserves	-	75	+ 75

* After provision for Taxes and Contingencies.

C. F. Childs & Co., Inc.

Profit and loss figures are not submitted. Earnings apparently were greater than the \$315,000 increase in net worth indicates, because of the retirement of some capital stock as shown in the table below:

(thousands of dollars)

	<u>12/31/59</u>	<u>12/31/60</u>	<u>Change</u>
Capital	3,000	3,000	-
Retained Earnings	<u>1,820</u>	<u>2,255</u>	<u>+435</u>
	4,820	5,255	+435
Less Treasury Stock	<u>-</u>	<u>120</u>	<u>+120</u>
Net Worth	<u>4,820</u>	<u>5,135</u>	<u>+315</u>

On December 9, 1960 the directors are said to have authorized the issuance of 3 per cent subordinated, convertible debentures, dated December 15, 1960, maturing December 15, 1985, in an amount not to exceed \$500,000. None of these debentures had been issued as of statement date.

New York Hanseatic Corporation

The firm's management advises that the moderate increase in net worth during their fiscal year was after payment of about \$96,000 in dividends. All departments of the business were said to have been very profitable. As indicated in the table below the extension of maturity to June 30, 1962 of \$200,000 of the notes reported in the October 31, 1959 balance sheet as due within one year and the sale of capital stock held in the Treasury accounted for a substantial portion of the \$404,000 increase in capital funds.

(thousands of dollars)

	<u>10/31/59</u>	<u>10/31/60</u>	<u>Change</u>
Capital Stock	1,200	1,200	-
Paid-in Surplus	807	807	-
Earned Surplus	1,022	1,117	+ 95
Reserve for Contingencies	<u>175</u>	<u>175</u>	<u>-</u>
	3,204	3,299	+ 95
Less Treasury Stock	<u>517</u>	<u>408</u>	<u>-109</u>
Net Worth	<u>2,687</u>	<u>2,891</u>	<u>+204</u>
Term notes due in over 1 year	<u>-</u>	<u>200</u>	<u>+200</u>
Capital Account	<u>2,687</u>	<u>3,091</u>	<u>+404</u>

D. W. Rich Discount Co., Inc.

D. W. Rich Discount Co., Inc., a wholly owned subsidiary of D. W. Rich & Co., Inc., showed no significant change in net worth from the previous statement because most of the net profits had been passed along to the parent company. Profits apparently were sufficient to erase the \$11,000 deficit and to repay the \$30,000 subordinated loan appearing in the October 31, 1959 balance sheet.

Composition of capital account at the two statement dates was as follows:

(thousands of dollars)

	<u>10/31/59</u>	<u>10/31/60</u>	<u>Change</u>
Capital	250	250	-
Surplus	<u>- 12</u>	<u>-</u>	<u>+ 12</u>
Net Worth	238	250	+ 12
Subordinated Loan	<u>30</u>	<u>-</u>	<u>- 30</u>
Capital Account	<u>268</u>	<u>250</u>	<u>- 18</u>

A liability item in the balance sheet "Federal and State income taxes" in the amount of \$201,636 provides a clue as to the size of the profits for the year.

Between October 31, 1959 and October 31, 1960 net worth of the parent company, D. W. Rich and Company, Inc., increased by \$597,000 to \$3,159,000. Working capital increased by \$536,000 to \$2,076,000. Not reflected in working capital are \$845,500 of 3% collateral debentures, \$70,951 reserve for contingencies, and the investment in wholly owned investment holding companies of \$1,482,862, which includes \$774,987 carrying value of their capital stocks which are in turn pledged against the 3% collateral debentures. The investment in subsidiaries is approximately \$2,370,000 less than the aggregate net asset value of these subsidiaries at October 31, 1960, including listed securities at quoted market values approximating \$3,614,000. As of October 31, 1959 the market value of these listed securities totaled \$4,510,000, but since the latest statement date the market has moved higher and based on current market

quotations the securities are valued at slightly more than \$4,000,000. A local bank holds the stock owned by the subsidiaries as collateral to loans to the subsidiaries totaling \$27,000. Because our dealings are with D. W. Rich Discount Co., Inc., we would not possess a creditor's interest in the stock of the subsidiaries owning the marketable stocks. We continue to have full confidence in the integrity of the company's president and his willingness to protect us through the value of the stocks and we are requiring higher margins on repurchase agreements with D. W. Rich Discount Co., Inc., than on contracts with other dealers. However, we are currently reviewing the entire financial relationship with this firm with a view to improving it to the extent possible.

Briggs, Schaedle & Co., Inc.

As shown in the table below most of the increase in capital account during the year was in earned surplus, indicating profitable operations. An income tax liability of \$549,000 in the balance sheet confirms that the company had an extremely satisfactory year.

	<u>11/30/59</u>	<u>11/30/60</u>	<u>Change</u>
Capital	21	21	-
Earned Surplus	1,065	1,532	+467
Paid-in Surplus	<u>46</u>	<u>60</u>	<u>+ 14</u>
	<u>1,132</u>	<u>1,613</u>	<u>+481</u>
Less Treasury Stock	<u>45</u>	<u>45</u>	<u>-</u>
Net Worth	1,087	1,568	+481
Debentures	<u>165</u>	<u>242</u>	<u>+ 77</u>
Capital Account	<u>1,252</u>	<u>1,810</u>	<u>+558</u>

Net worth does not reflect unrealized appreciation of \$23,000 on securities sold under repurchase agreement.

The management mentioned in a conversation that December 1960, the first month of their new fiscal year, was probably the most successful month that they had ever had.

Wm. E. Pollock & Co., Inc.

Profit and loss figures are not submitted. However, the increase of \$191,000 in surplus, as compared with an increase of \$89,000 the year before, indicates satisfactory operating results.

Bartow Leeds & Co., Inc.

The management advises that all parts of the business were profitable in 1960. The November 30, 1960 balance sheet indicates a net worth of \$650,000. However, the increase of \$299,000 from November 30, 1959 represents gross profits, no provision for income taxes having been made. Withdrawals by the partners in order to pay taxes might amount to as much as \$150,000, according to the management's estimate, which would reduce net worth to the neighborhood of \$500,000.

Charles E. Quincey & Co.

This firm's balance sheet as of August 31, 1960, the most recent available, shows a net worth of \$1,049,000, an increase of \$191,000 over the eleven-month period since the statement of September 30, 1959. The 1960 balance sheet includes a reserve for partners' share of undistributed profits totaling \$165,000. No comparable item appeared in the September 30, 1959 balance sheet.

Malon S. Andrus, Inc.

The firm's management claims that since early 1959 steady progress has been made in building up profits from normal trading operations. In the fiscal year ended January 31 net worth was increased by \$62,000. An unaudited statement as of March 31, 1961 reveals a further increase in net worth of \$124,000, reflecting the capitalization of about \$85,000 unrealized profits mentioned in the audited January 31, 1961 statement. The firm realized these and other profits in their new fiscal year and has set up a tax reserve of \$76,000 against these profits.

Summary

All dealers appear to have made satisfactory progress during 1960. Operating results of those few dealers who submit profit and loss figures, as well as management comments, confirm this and in most instances the increase in net worth or in adjusted capital account was substantially greater than in the previous year.

Federal Reserve Bank of New York
Securities Department
May 25, 1961

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

	Statement Date	Net Worth*		Long Position		Short Position	Basis of Valuation
		Amount	Change During Previous 12 Months	U.S. Government & Agency Secs.	Other Secs.		
First Boston Corp. (a)	12/31/60	24,712 (d)	+ 428	166,354	27,344	16,162	Market
C. J. Devine & Co. (b)	12/31/60	18,295 (e)	+1,528	342,907	18,437	86,575	Long-Lower of cost or market Short-Selling price
Salomon Bros. & Hutzler (a)	10/ 3/60	14,519 (f)	+2,055 (g)	595,999	58,102	36,226	Market
Discount Corp.	12/31/60	8,805	+ 140	127,934	-	-	Market or less
C. F. Childs & Co., Inc. (b)	12/31/60	5,135	+ 315	165,699 (h)	(h)	9,414	Market
N. Y. Hanseatic Corp. (a)	10/31/60	3,091 (i)	+ 404	49,282	6,041	952	Long-Below market Short-Selling price
D. W. Rich Discount Co., Inc. (c)	10/31/60	250	- 18	18,718	-	-	
Briggs, Schaedle & Co., Inc.	11/30/60	1,810 (j)	+ 558	39,651	-	16,152	Market
Wm. E. Pollock & Co., Inc. (a)	12/31/60	1,336	+ 191	63,846	1,334	-	Lower of cost or market
Bartow Leeds & Co. (b)	11/30/60	650	+ 299	118	129	-	Lower of cost or market
Charles E. Quincey & Co. (a)	8/31/60	1,049	+ 191 (k)	26,187	-	410	Market
Malon S. Andrus, Inc. (b)	1/31/61	165 (l)	+ 62	19,404 (h)	(h)	199	Lower of cost or market

* Or adjusted capital accounts.

- (a) Also general dealer in securities other than U.S. Government securities.
- (b) Also dealers in municipal bonds.
- (c) Created to deal in Treasury bills only.
- (d) Includes \$1,975,000 reserve for contingencies.
- (e) Includes \$600,000 unrealized appreciation.
- (f) Includes \$2,819,000 reserves available as capital.
- (g) Change since Dec. 31, 1959 (ten months).

- (h) Not segregated, but believed to consist principally of U. S. Government securities.
- (i) Includes \$175,000 reserve for contingencies and \$200,000 term notes due 6/30/62.
- (j) Includes \$242,000 debentures due in over one year.
- (k) Change since Sept. 30, 1959 (eleven months).
- (l) Includes \$100,000 subordinated debentures.

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Securities Department
May 25, 1961

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