

L. L. B. ANGAS

570 LEXINGTON AVENUE, NEW YORK

April 26, 1945

Mr. Marriner S. Eccles,  
Shoreham Hotel,  
Washington, D. C.

My dear Mr. Eccles:

I wonder if you could send me a copy of your long letter to Standard Statistics explaining your personal viewpoint concerning control of speculation.

\* \* \*

Enclosure anent such actions, published last February, may interest you.

Yours truly,



MAJOR L. L. B. ANGAS

LA:ms  
Enc. SL 195

May 9, 1945.

Major L. L. B. Angas,  
570 Lexington Avenue,  
New York City.

Dear Major Angas:

In accordance with your request, I am enclosing a copy of the statement I gave to Standard and Poor's for use in their publication, "The Outlook". In view of their limited space, they used only a small part of it.

I was interested to see your reference to the capital gains tax in the letter of February 26 which you enclosed. I had made an effort unsuccessfully more than a year ago to do away with this loophole in the tax structure. I agree with you that there is no justification, certainly in wartime, for borrowing money to speculate.

Sincerely yours,

M. S. Eccles,  
Chairman.

Enclosure

ET:b

# "OFFICIAL WARNING SOUNDED"

Dow 155

Letter 195

Feb. 6, 1945

MAJOR L. L. B. ANGAS

## A SHOT NOT YET HEARD AROUND THE FINANCIAL WORLD

Last week the F.R.B. raised margin requirements from 40% to 50%. What does it mean? I regard it as a warning. *But then I would, since the bulls all laugh.*

Naturally when a bear is wrong on the market he seizes upon any point which might be interpreted bearishly, and blows it up until it assumes (to him) a first-class magnitude, even though it may be of only minor importance. Perhaps I am guilty of this lack of perspective myself since I am already some 7 points wrong on the Dow.

But be that as it may, I feel it worth while saying a word or two about "official" supervision of the market.

In Letter 192 I mentioned, among many others, the following tenet, "*If ever a bank calls in an old loan, Sell out widely. It is probably a sign that the banks will soon be calling in loans all around, and that a general collapse will soon ensue.*"

I regard the recent margin rise by F.R.B. as of a similar nature. It means, to me, that the authorities think that speculation is getting too wild, and perhaps also that stocks have gone far enough and are high enough.

In February 1937 there was a similar warning from Mr. Roosevelt advising people not to speculate. That warning came mighty near the top. Now I do not attribute to the S.E.C., nor to anyone else, the power of knowing when a market is at the top; but a modern government which is in control of the banking system as well as many other systems has a tremendous amount of power to stop stocks rising.

## THEY VIEW OUR BOOM WITH ALARM

I agree that the raising of margins by a few per cent in itself means practically nothing, and will induce virtually no forced selling. And the Fed. Res. Board knows that also. So does the White House, but its importance seems to lie in that it is an official recognition of the existence of a bull market which the authorities think may be getting dangerous either (a) to investors themselves or (b) to the community as a whole.

\* \* \*

Let us consider first the interests of investors themselves. In Digest 142 entitled "*You can't Beat the Market*" I showed how impossible it was for the majority to cash in their paper profits in a boom, and how it was a mathematical certainty that the majority would eventually lose most of their paper or real wealth. I also emphasized that on such occasions the public made a habit of crying out against the government for allowing such things to happen to them, and against Wall Street for "causing" such things to happen. I emphasized however that it was the public itself — not the government nor insiders — which made these things happen.

A wise S.E.C. or F.R.B. will therefore, if it regards its job to be interference and supervision tell the public (without committing its own precious forecasting reputation too much or too clearly) when it thinks that the game has gone far enough, or perhaps a bit too far.

## DO THE SOLDIERS MIND?

First of all there is the military angle to consider. We of the Infantry in the last war, enjoying the winter mud and gas of Flanders, were not too happy with the high incomes being earned by war workers and war profiteers. It seemed to us a bit unfair and un-English (though no one ever used that word) that the C-III population, as it was then called, should be allowed to make a fortune out of the war while "we" got knocked to bits to preserve their liberties. Maybe things have changed in this war; but personally I think that as long as human beings are jealous of the Joneses, soldiers will never be too happy to see speculators making fortunes on the home security front when they lose legs on the insecurity front abroad.

Sure, the Dow Index has only risen 10% since the beginning of the war, but quite a number of other stocks have risen several hundred per cent; and quite a number of people have made on paper, i.e. think they have made, quite a lot of money. And the soldiers hear about it — even though there were to be no profiteers according to war commencement speeches and even though they would like to do the same themselves.

I may however be over-emphasizing the importance of soldier psychology. In addition there are economic angles to consider.

## COMPETITION WITH WAR LOANS

In a way a high stock market is an excellent thing for war loans, because people feel so rich on paper that they feel that they can well afford to put quite a bit of money patriotically into low yielding war loans. But simultaneously a high stock market rather encourages over consumption of consumer goods, and inflationary luxury spending. Just visit Broadway (if you can get your Mercedes farther west than Fifth Avenue).

According to many, an active stock market diverts money from industry, and from war loans, into the stock exchange arena. This may be true to a certain extent, but is not very important. The stock exchange (as distinct from the New Issue market) does not actually absorb savings, except a small percentage thereof which goes in commissions: the purchase of 2nd hand securities merely changes the ownership of money and of securities simultaneously .... the buyer parting with his savings for securities, and the seller parting with his securities for other people's savings. The total amount of each remains the same, except as I said for the small erosion of commissions and expenses.

Personally I think a fairly high stock market does more good for war loans than harm .... though the S.E.C. may not think so. I know not.

But let me hasten to say that quite a few people who might put money into war loans if stocks were inactive or falling or looked dear, will not buy the war loans if they feel they can make another 20% in the next few months, or 50% in the next 6 months. They will argue that they will patriotically buy war loans later on .... with their profits! Maybe if the stock market were forced down a bit or made inactive or more or less pegged or ceilinged you would get quite a few people cashing in their profits and putting their savings direct into war loans despite the low interest rate.

## TAX TACTICS

But there is another governmental angle apart from war-loan subscriptions .... I refer to the tax revenue obtained from capital gains.

If the Treasury wants to get money from successful speculators it will want them to do a good deal of selling out (to other buyers) before the cyclical slump comes and before the paper profits disappear in the ugly manner described in "*You Can't Beat the Market.*"

The best thing for the Treasury is that all securities showing profits should change hands near the top and be held during the next slump, not by the present owners who have paper profits showing, but by a new lot of owners who bought at the top. Then the Treasury gets its share of all the paper profits made.

This sounds a very cynical statement but it is a fact .... considered solely from the point of view of Treasury revenue from capital gains.

Of course if during the next slump all securities were owned only by people who bought virtually at the top, there would be squeals of a nature to deafen the whole of the District of Columbia: and in practice of course you will never get a condition where everybody did buy at the top or in the top zone.

But for all that, as far as the Treasury is concerned, it likes people to take their profits "*in our time.*" The Treasury would like a wave of profit taking.

## DEMORALIZATION OF "THE WORKERS"

Next we come to the national interest. I have already mentioned the extent to which chorines, caddies, cabmen and conjurers are all now speculating in the cats and the dogs. Successful speculation is very exhilarating. It is rather inclined to go to one's head. Why work when you can gain in a very few weeks in some dog what you could not earn with your sweat in 6 months or a year? Chuck your war work: study the market: learn how to get rich quickly from wizards.

But you will notice that very few of the wizards have made money from playing the market themselves, or kept it. They rather wisely prefer to write. *If you can't act, you teach!*

## UNPRINTABLE THOUGHTS RE GOOD SAMARITANS

And the financial expert is, or should be, a person who has lost so much money himself that he feels it is his duty to go out in the highways and hedges and save those who might similarly lose money from repeating his own sad experiences. That is the duty of us "experts" .... an expert being a man with (sad) personal experience...

And look at the sad faces and frightened walks of all of us starved experts: how perplexed we look: how utterly worried: and how we always hedge and turn and twist and wriggle, and face both ways yet still pretend to be experts. If we pretend we know all the answers we are called charlatans: if we admit we don't we are similarly called charlatans. And some of our clients even have the gall to ask us why, if we know so much about the market, have we not made a fortune ourselves, and retired. (*Please never do that to me, you cads. I have got as much as I can take already.*)

Prior to the days of planned economy and totalitarianism the art of stock market forecasting was to some extent a science. If one understood the nature of the business cycle and its causes, one had a good chance of being right most of the time. But now-a-days with politicians and dictators popping up at all times and interfering; and what is even worse, with politicians not carrying out the "plans" they have publicly asserted that they have planned to pursue (e.g. paralysis of appointed money authorities in late 1937) the stock market prophet is not only fooling himself and his clients if he pretends that he has much more than a dog's chance of hitting things on the nose with great accuracy. Things in fact are not what they were .... even though one can, if one is so minded, continue to write amusingly or dispairingly, for money, on how difficult it is to write on anything with much confidence. *I even buy the prophecies of other prophets myself.*

### THE NEED FOR TIPS

And really the majority of prophets and selectors in Wall Street do a very conscientious job. I might add that the idea that tipsters should be stopped from tipping is perfectly ridiculous. Personally I have stopped tipping for the time being, and for two years have refused to manage any accounts because I regard the game as such a gamble depending mainly on war and politics. Indeed I have over-played a policy of great caution, to my financial cost. But for SEC or anyone else to crack down on tipping as distinct from dishonest tipping is ludicrous. What is a widow who receives life insurance to do with her money. She does not know. She goes to a respectable lawyer or banker and he does not know. It is true the investment wizards do not really know either, but they make a lifetime study of the subject and nearly all of them do their very best about being careful with their tips.

You cannot invest without tips, or self-generated tips. It is perfectly silly to pretend that tipping is dishonourable or to give it a bad name. As long as people are encouraged to save and allowed to invest they want to put their savings into something which will preferably be safe and improve in value rather than fall. And the adviser or lawyer or banker who pretends he does not tip is just fooling himself.

All advice is composed of tips, except generalized advice (like these Digests) which concerns itself with timing rather than selection. If SEC really wants to help the situation in this respect it should start a school for tipsters and improve them rather than try to eliminate them. In fact to my mind it is time that people who like to pose as financially respectable should stop pretending that tipping, which is merely selection, which is merely advising, is not a part of the day-to-day duty of lawyers, bankers, brokers, and us professional prophets. There is too much humbug surrounding this business. For 90% of investors the game is a gamble and an unavoidable one at that. So is life. So is medicine. And all such euphemistic words as "securities", or investment as opposed to speculation, or advice as opposed to tipping, are to my mind contemptible humbug.

The game is difficult. Why not admit it. So is law. So is medicine. There are crooks in all three spheres. But there are hundreds of conscientious specialists, and it is silly to damn them as a group or to try to eliminate them when capitalism positively needs them. What the SEC in fact might well do is to break down the pretense that securities are safe and that the whole business is not also to a large extent a gamble depending on master politicians, on dictators, and on the moods and imaginations of the fickle general public. *But enough of this.*

### ORACLE SPEAKS FROM PHILADELPHIA (ALSO)

One duty of an expert is to tell his clientele, if any, when he sees the Lords of Finance or the S.E.C. raising a warning finger and making muffled noises on the walls of Babylon. They did it last week, so I think. So beware.

\* \* \*

Of course last week's pink light may not mean much just yet; but redder lights may be coming later. And those of us who did not take Mr. Roosevelt's warning in February 1937 lived to regret our over-optimism and our then-argument that a speech by a president (whom after all one knew personally at Groton) could not possibly stop the American stock market.

But in a few weeks the Federal Reserve Board started pulling in money, and that deflation .... in conjunction with an already over-extended position in inventories .... set the snowball rolling down hill and led to the 1938 slump.

### BOOM CONTROLS

Maybe, for a mixture of clear or unclear reasons, Washington is now planning a similar campaign. And mighty are their powers. Mr. Purcell might tell Mr. Morgenthau to raise the taxes on capital gains. Henry might tell Marriner to tell all bankers to refuse all

loans against securities .... in fact why the H should anybody be allowed to borrow money to speculate (even if it is only \$1 bn.), when the country is crying out for war finance. Mr. Eccles might tell Mr. Morgenthay to go put a 5% stamp duty or transfer tax on all purchases of securities: it has been 1% in England since the year One. And Mr. Roosevelt might tell the Congress to put higher taxes on corporations while they can easily stand it. Or why not let somebody tell the dear old public to match, with equal investment in war loans, any money they spend on the purchase of common stocks? *Why not? There is a war on, which is much too inflationary.*

The bulls giggle. They know that only \$1 bn. is (supposed to be) borrowed against securities; and they argue that to clear this \$1 bn. out would only take  $12\frac{1}{2}$  days of 2 mn. shares each, with stocks averaging \$40. *Personally I think it would bump the market plenty in those 12 days.*

Oh no, you can't stop the stock market, say the bulls, nor impose a super super-tax on capital gains. *Or can you? Why not?* Are not capital gains taxed much less than any other form of profitable enterprise in America? At present, the more you work and "earn" the more you get taxed. It pays today to become a relatively untaxed speculator. But maybe by this time I have made my point, namely that things are not always as safe as they look. Sleeping tigers and serpents are beginning to wake up.

And unless my memory serves me wrong, did not the S.E.C., as distinct from the F.R.B., say that floor trading ought to be abolished the other day? Maybe some of the people in S.E.C. know some of the people in F.R.B.; and maybe the powers that be have secretly planned to attack the S.E. although the first two shots in this campaign were hardly heard in the confident hubbub of Wall Street.

Sure, the market looks as safe as a house on the surface .... and sure, there is so much inflation of bank money in general ... that a man looks crazy not to go buy his head off. Everything *really* looks so safe. But that is the "look" of all booms when near the top.

I attribute quite some meaning to the *practically* "unimportant" action of F.R.B. It may be the first spark in a forest fire. And seeing that the Times as well as the Wall Street Journal and the Senate are setting their faces against cushioning spending sprees after the war it may be that the wisest time to get out and stay out is when it looks "*much too soon.*"

The writing is now on the side-wall of Wall Street. The Gods have faintly cried "enough". War has been declared on the 4th Roosevelt Boom. The boom must stop, or else.

THE END

Major L. L. B. ANGAS, Investment Economist, 570 Lexington Avenue, New York 22



L. L. B. ANGAS

570 LEXINGTON AVENUE, NEW YORK

May 11, 1945

Mr. M. S. Eccles,  
Chairman,  
Board of Governors,  
Federal Reserve System,  
Washington 25, D. C.

Dear Mr. Eccles:

Just a line to thank you so much for sending me a copy of your statement to Standard and Poor's.

You have many enemies, but it is they, not you, who are wrong in my view, although 'on paper' I belong to the pack who want to drink your blood.

Yours cordially,



MAJOR L. L. B. ANGAS

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