MONEY TRUST INVESTIGATION

INVESTIGATION

OF

FINANCIAL AND MONETARY CONDITIONS IN THE UNITED STATES

UNDER

HOUSE RESOLUTIONS NOS. 429 AND 504

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY

PART 11

WASHINGTON
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SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY.

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MONEY TRUST INVESTIGATION.

SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., Friday, December 13, 1912.

The subcommittee met at 11 o'clock a. m.

Present, Messrs. Pujo (chairman), Stephens, Daugherty, Byrnes, McMorran, Hayes, Guernsey, and Heald.

Present also, Samuel Untermyer Esq., of New York, counsel for the committee.

TESTIMONY OF FRANK KNIGHT STURGIS—Continued.

Mr. UNTERMYER. In your testimony yesterday, Mr. Sturgis, you referred to the question of membership and the limitation of membership and the reasons for it. Do you know the average annual amount of dealings in stock that are conducted on the New York Stock Exchange?

Mr. STURGIS. No; Mr. Untermyer.

Mr. UNTERMYER. By way of illustration, where it appears in the day's quotations that 100,000 shares of stock have been dealt in, that means, does it not, that 100,000 shares have been sold and 100,000 bought?

Mr. STURGIS. That is correct.

Mr. UNTERMYER. Did your committee supply the Hughes Commission with a statement of the dealings in stock on the stock exchange?

Mr. STURGIS. I do not remember. We gave them quite a number of data of different kinds. Whether that was among it or not I could not say.

Mr. UNTERMYER. Let me call your attention to the following in that report:

In the past decade the average annual sales of shares have been 196,000,000. Bond transactions average about $800,000,000.

That is about right, I suppose, is it not?

Mr. STURGIS. I really could not tell. Those figures may have been taken from the Financial Chronicle.

Mr. UNTERMYER. The Financial Chronicle is a reliable authority, is it not?

Mr. STURGIS. We so regard it.

Mr. UNTERMYER. Assuming the correctness of the statement that there are 196,000,000 shares a year dealt in—that is, 196,000,000 shares a year bought and 196,000,000 shares a year sold—that would involve the payment, would it not, of 25 cents a shares to the stock-exchange brokers?

Mr. STURGIS. Twenty-five cents a share?

Mr. UNTERMYER. Yes; 12½ cents on each side of the transaction?

Mr. STURGIS. I do not think I quite understand.

Mr. UNTERMYER. The commission?

Mr. STURGIS. It is not 25 cents a share, because a vast amount of that stock is bought and sold by the broker himself where there is no commission whatsoever.

Mr. UNTERMYER. Do you mean that the broker himself speculates in it?

Mr. STURGIS. I do. He does, unquestionably.

Mr. UNTERMYER. What proportion, then, of the speculation on the stock exchange is done by the members or brokers of the stock exchange?

Mr. STURGIS. That varies with the general conditions. When the commission business is valuable and active, the speculative interests or operations are smaller in proportion. When it is extremely inactive, the speculative proportion would be greater. It would be difficult to say, offhand, what proportion one bears to the other.

Mr. UNTERMYER. Can you give no conception of the proportion? Would the speculative transactions average one-quarter of all the transactions?

Mr. STURGIS. It might range from a quarter up to a half. I could only make a rough guess.

Mr. UNTERMYER. Somewhere between a quarter and a half?

Mr. STURGIS. We will assume that.

Mr. UNTERMYER. Do you want to have the committee understand that these 1,100 brokers speculate to the extent of from one-quarter to one-half of all the dealings on the stock exchange?

Mr. STURGIS. In the first place, Mr. Untermyer, many firms have two members of the stock exchange, some have three, and some have even four. Then there are probably over 150 nonresident members of the exchange who own memberships and who live all the way from New York to California and from Canada down to Florida. It is impossible to judge whether those persons are operating for their own account or whether they are transacting a commission business. We have no knowledge of that whatsoever.

Mr. UNTERMYER. That is not the point just now. You say sometimes a single firm has two or three or four members of the stock exchange?

Mr. STURGIS. Yes.

Mr. UNTERMYER. And that there are 150 nonresident members included in this 1,100?

Mr. STURGIS. About 150, my recollection is.

Mr. UNTERMYER. How many active stock exchange members are there?

Mr. STURGIS. On a busy day the attendance upon the floor of the exchange, I should say, would be from 400 to 500 men. Of a dull day it sometimes drops down to not over 200 men.

Mr. UNTERMYER. But that small number of brokers, then, acting for themselves and their brokerage firms, in your judgment dealt in from one-quarter to one-half of this 196,000,000?

Mr. STURGIS. In the course of the year I should think about from one-quarter to one-half; yes.

Mr. UNTERMYER. Suppose we say one-third. Would that be fair?
Mr. STURGIS. We will make it that, then.
Mr. UNTERMYER. That would be a fair average? That would leave 131,000,000 shares on which a commission is paid?
Mr. STURGIS. I do not remember the figures. You have them there.
Mr. UNTERMYER. The commission on each one of these transactions is 25 cents a share, is it not?
Mr. STURGIS. No; A very large amount of that business pays but $2 per 100 shares.
Mr. UNTERMYER. Is that what they call "floor business"?
Mr. STURGIS. That is what they call floor business; yes. A very large proportion of it pays but $3.12½ per 100 shares.
Mr. UNTERMYER. What proportion of the business is that?
Mr. STURGIS. That varies very much by conditions. Then there is a very large amount of the business, all of what is known as the out-of-town wire business, that pays half commissions only, which is $6.25.
Mr. UNTERMYER. You mean, between members?
Mr. STURGIS. Between members; yes. Between the nonresident members of whom I have just spoken and the members of the New York Stock Exchange resident in New York, who carry the accounts and make advances to the nonresident members who may be anywhere from Chicago westward or southward.
Mr. UNTERMYER. The nonresident member, though, has to have a full membership?
Mr. STURGIS. He has to have a full membership; yes, sir.
Mr. UNTERMYER. His obligations are the same as those of the resident member?
Mr. STURGIS. The obligations are the same.
Mr. UNTERMYER. And his interest in the exchange is the same?
Mr. STURGIS. His interest in the exchange is the same.
Mr. UNTERMYER. There are no different classes of membership?
Mr. STURGIS. There are none.
Mr. UNTERMYER. These various prices of $2 paid by a stock exchange member to another stock exchange member who is what they call a floor trader, $3.25 to another stock exchange member, and another price to another, are all arrangements regulated by the exchange, are they not, by rule?
Mr. STURGIS. They are regulated by rule.
Mr. UNTERMYER. And they do not apply to any outside purchaser?
Mr. STURGIS. Only to the members of this exchange.
Mr. UNTERMYER. Every purchase made and every sale made by a nonmember involves the full commission of 12½ cents a share, does it not?
Mr. STURGIS. It does.
Mr. UNTERMYER. And it involves, does it not, a tax or charge of 25 cents on every share that is dealt in?
Mr. STURGIS. No; because many of those shares of stock are taken up and paid for, and that is only one commission.
Mr. UNTERMYER. I do not think I understand. Let me see. If a broken representing a customer sells to another broker representing another customer, the two customers together pay 25 cents on that transaction, do they not?

Mr. STURGIS. Yes; but there are a great many members of the stock exchange, men of large wealth, who sell their own securities, and thus pay back the commission to the buyer.

Mr. UNTERMYER. That I understand: but I am speaking now of transactions affecting the outside public on both sides of the transaction.

Mr. STURGIS. On both sides of the transaction, yes; where they are on both sides of the transaction.

Mr. UNTERMYER. Then the commission on each share that is reported as dealt in for the day is 25 cents a share?

Mr. STURGIS. Wherever the outside public is on both sides of the transaction; yes.

Mr. UNTERMYER. That charge applies, does it not, whether the price of the share is $10 or $11, or whether the price is $200?

Mr. STURGIS. If the par value of railroad stocks is $100 a share, the charge is the same no matter what the market value of the stock may be at the time.

Mr. UNTERMYER. I am not referring to railroad stocks, Mr. Sturgis. I am referring to all classes of securities listed on the exchange. Is it or not the fact that as to all those securities, except as to mining stocks that are quoted at less than $10 a share, the commission is uniform?

Mr. STURGIS. You refer to par value stocks?

Mr. UNTERMYER. No; I do not. I refer to the price paid for the stock on the exchange.

Mr. STURGIS. Yes; but you must remember that Reading, Delaware, Lackawanna & Western, and Pennsylvania Railroad are what they call $50 par value.

Mr. UNTERMYER. Yes.

Mr. STURGIS. Of course, the commission is only one-half there of what it would be if the par value were $100.

Mr. UNTERMYER. Yes; but apart from that: take a mining stock, for instance, like the Utah Copper Co. That has a par value of $5, has it not?

Mr. STURGIS. There are special——

Mr. UNTERMYER. Will you not answer my question?

Mr. STURGIS. I beg pardon; what is your question?

Mr. UNTERMYER. Has not that stock a par value of $5?

Mr. STURGIS. I do not know. I never dealt in it.

Mr. UNTERMYER. And do you not know that it is selling at about $50 to $60?

Mr. STURGIS. I do not know what the selling price is.

Mr. UNTERMYER. You do not know as to Amalgamated Copper, for instance?

Mr. STURGIS. Amalgamated Copper I know something about.

Mr. UNTERMYER. Do you know what the par value of that is?

Mr. STURGIS. Frankly, I always thought it was $100 a share.

Mr. UNTERMYER. And it is selling around $80 or $90?

Mr. STURGIS. I think so.

Mr. UNTERMYER. Is it or not the fact that the price at which a stock sells on the exchange has nothing to do with the commission that is payable on it?

Mr. STURGIS. Will you except mining stocks from your question?

Mr. UNTERMYER. Yes; except mining stocks that sell at under $10. Is not that right?

Mr. STURGIS. That is correct.

Mr. UNTERMYER. So that as to the ordinary stock that is selling at, say, $5 or $6, the commission that has to be paid by the outside public is the same, is it not, as it is on the stock that is selling at $200 a share?

Mr. STURGIS. Precisely the same.

Mr. UNTERMYER. What do you understand by "short selling?"

Mr. STURGIS. I should answer that question by saying that there are different kinds of short selling. For instance, you take securities that are arriving from Europe; they are sold short temporarily in the New York market. They may be delivered in two weeks after they get over here. Temporarily that is a short sale. There is a short sale where a purely speculative transaction is made with the expectation of the market breaking and there being an opportunity to repurchase at a profit. That is the common acceptance of a short sale.

Mr. UNTERMYER. You know, do you not, that where securities are sold that are on the other side—to be delivered from Europe—that is not considered short selling where the securities are owned by the person who is selling them?

Mr. STURGIS. It is a short sale in this sense, Mr. Untermyer, that frequently those sales are bought back on this side of the water and not on the other.

Mr. UNTERMYER. Then, as I understand you, in those cases a man is selling something that he has not got, and he is covering over here.

Mr. STURGIS. Sometimes.

Mr. UNTERMYER. That is the same kind of short selling as the other, then, is it not?

Mr. STURGIS. Not necessarily, because he may change his mind if the market breaks badly and not ship his long securities.

Mr. UNTERMYER. You understand what I mean by short selling?

Mr. STURGIS. Yes. I qualified by saying there were two kinds of short selling. What you probably refer to is the selling short for the purpose of making a profit on a transaction where you do not own the stock originally.

Mr. UNTERMYER. No; I want to go a little further. I want to understand whether you mean to say there are two kinds of short selling. Let us take, for instance, the selling of securities that are in Europe. If the man owns the securities that he is selling, even though they are to arrive from Europe, do you understand that is short selling?

Mr. STURGIS. The New York broker——

Mr. UNTERMYER. Will you not answer?

Mr. STURGIS. I will. I was going to answer you. The New York broker is short of it until he gets the certificates from London.

Mr. UNTERMYER. Yes; but the certificates can be put into his possession by cable, can they not?

Mr. STURGIS. In the first place, those certificates are all in 10-share lots.

Mr. UNTERMYER. Will you not answer my question?

Mr. STURGIS. They can not be put into his possession by cable.

Mr. UNTERMYER. The 10-share certificates can be put into his possession by cable, can they not?

Mr. STURGIS. Not necessarily.

Mr. UNTERMYER. If the man who is selling the stock owns it——

Mr. STURGIS. Suppose——

Mr. UNTERMYER. Just one moment. Can he not direct that the broker's representative in London shall have the certificates transferred to the broker?

Mr. STURGIS. They have got to be transferred in New York.

Mr. UNTERMYER. That amounts to nothing in the way of transactions on the exchange, does it?

Mr. STURGIS. It amounts to a great many thousands of shares in the course of a year.

Mr. UNTERMYER. What proportion of the short selling of the other kind does that amount to?

Mr. STURGIS. Mr. Untermyer, I can not give you those proportions. It would be quite impossible.

Mr. UNTERMYER. Would it amount to 1 per cent?

Mr. STURGIS. I could not even venture to make a suggestion as to that.

Mr. UNTERMYER. The vast amount of short selling is of the second class you have described?

Mr. STURGIS. Yes.

Mr. UNTERMYER. Is that a purely speculative transaction?

Mr. STURGIS. In the main.

Mr. UNTERMYER. You say "in the main." In what respect is it not a speculative transaction?

Mr. STURGIS. Sometimes short sales are made where the condition is such that an individual may have some long stocks that are not of a quick market.

Mr. UNTERMYER. You mean if a man sells a stock that he does not own, because he happens to have some other stocks of a different kind that he does own his selling the stock that he does not own is not of a speculative kind?

Mr. STURGIS. No. It is of a speculative kind, but it is on the principle of a hedge, which is not an unusual thing.

Mr. UNTERMYER. The principle of a hedge?

Mr. STURGIS. Yes; it is.

Mr. UNTERMYER. But do you contend that it is not a purely speculative transaction?

Mr. STURGIS. It is a purely speculative transaction.

Mr. UNTERMYER. Certainly. What is the purpose of short selling?

Mr. STURGIS. Generally speaking, to make a profit.

Mr. UNTERMYER. To make a profit by what process?

Mr. STURGIS. By repurchasing the short sale at a declining price.

Mr. UNTERMYER. That is, by selling a security that you have not got, and gambling on the proposition that you can get it cheaper and deliver the thing that is sold? Is not that it?

Mr. STURGIS. That is the usual process—selling when you think the price is too high and repurchasing when you think it has reached the proper level.

Mr. UNTERMYER. But is it or not the process of selling a thing you have not got?

Mr. STURGIS. It is.

Mr. UNTERMYER. And is it or not with the idea that it will go lower, or can be depressed lower, and bought cheaper, and delivered?

Mr. STURGIS. Truly.

Mr. UNTERMYER. Do I understand that you regard that as legitimate and defensible?

Mr. STURGIS. Do you wish my personal expression of opinion?

Mr. UNTERMYER. Yes.

Mr. STURGIS. I think it depends entirely upon circumstances.

Mr. UNTERMYER. Under what circumstances would you regard that sort of short selling as legitimate and proper?

Mr. STURGIS. I would regard it so if there was a panic raging over the country and it was desirable to protect interests which could not be sold. I think it would be a perfectly legitimate thing to do.

Mr. UNTERMYER. Let us see about that. If there was a panic raging over the country and a man sold stocks short, would not that simply add to the panic?

Mr. STURGIS. It might. Self-preservation is the first law of nature.

Mr. UNTERMYER. Hold on—self-preservation?

Mr. STURGIS. Yes.

Mr. UNTERMYER. But, as I understand it, if there is a panic raging over the country, you think it is defensible for a man to depress stocks by selling stocks he has not got, with the idea of adding to the panic?

Mr. STURGIS. Mr. Untermyer, if a person has property which is absolutely unsalable, and he can, so to speak, protect his position by selling something for which there is a broad market——

Mr. UNTERMYER. That he has not got?

Mr. STURGIS (continuing). I do not consider it wrong.

Mr. UNTERMYER. Mr. Sturgis, let us just analyze that, because I do not think I understand you. You do not want to be misunderstood, do you?

Mr. STURGIS. It is not my wish.

Mr. UNTERMYER. And I do not want you to be misunderstood. Do you mean to say that if there is a panic raging it is a defensible thing for a man, under any circumstances, to sell stock that he has not got, with the idea of getting it back cheaper?

Mr. STURGIS. I do think it is defensible. I certainly think it is defensible.

Mr. UNTERMYER. For what purposes does he do that except to try to make money?

Mr. STURGIS. To try to save his credit, perhaps.

Mr. UNTERMYER. How does he save his credit in a panic by selling stocks that he has not got, with the idea of adding to the panic and getting them cheaper?

Mr. STURGIS. Because if he can make a profit on that sale it may repair the losses that he has made on stocks he can not sell.

Mr. UNTERMYER. I see. You know that that would simply accentuate the fierceness of the panic, do you not?

Mr. STURGIS. It could not be otherwise.

Mr. UNTERMYER. Certainly. And his only purpose in doing a thing of that kind in time of panic would be to make money, would it not?

Mr. STURGIS. To protect himself.

Mr. UNTERMYER. It would be to make money, would it not?
Mr. STURGIS. Yes; and that would protect him.
Mr. UNTERMYER. Of course it always protects a man to make money, no matter how he makes it, does it not?
Mr. STURGIS. Yes, sir.
Mr. UNTERMYER. And that, you think, is justifiable?
Mr. STURGIS. I think under those circumstances it is.
Mr. UNTERMYER. You do not want to make any further explanation of that proposition, do you?
Mr. STURGIS. I do not.
Mr. UNTERMYER. Is it any more justifiable for a man to sell short in a panic than in a normal market?
Mr. STURGIS. It depends very much upon his financial necessities.
Mr. UNTERMYER. Do you regard it as justifiable in a normal market for a man to sell a thing he has not got, with the idea of depressing prices in order to buy in the stock at a lower level?
Mr. STURGIS. I think it is a question between a man and his own conscience, Mr. Untermyer.
Mr. UNTERMYER. I am asking for your judgment. You have been many years in the exchange, and you are a careful observer, and I would like to know your judgment.
Mr. STURGIS. I think a great many people deprecate it. Others approve it.
Mr. UNTERMYER. Do you approve of it?
Mr. STURGIS. You ask me personally?
Mr. UNTERMYER. Yes.
Mr. STURGIS. I never sold a share of stock short in my life.
Mr. UNTERMYER. Then you do not approve of it, do you?
Mr. STURGIS. I just happen not to have done it. My private business, if you please, I beg you to omit.
Mr. UNTERMYER. I have not asked you your private business.
Mr. STURGIS. Yes, you asked me what I did myself.
Mr. UNTERMYER. I did not ask you that, sir. I asked you what you thought about it.

At this point, by request, the stenographer read from the foregoing testimony as follows:

Mr. UNTERMYER. Do you approve of it?
Mr. STURGIS. You ask me personally?
Mr. UNTERMYER. Yes.
Mr. STURGIS. I never sold a share of stock short in my life.

Mr. UNTERMYER. Did I ask you——
Mr. STURGIS. I asked you whether you asked me personally, and you said yes.
Mr. UNTERMYER. Mr. Sturgis, do you not understand that I asked you whether you approved of short selling?
Mr. STURGIS. No, Mr. Untermyer. I did not understand the question that way.
Mr. UNTERMYER. Do you not understand it now?
Mr. STURGIS. Now that you correct it, yes.
Mr. UNTERMYER. I did not ask you whether you——
Mr. STURGIS. I asked you whether you referred to me personally, and you said yes.
Mr. UNTERMYER. No. What I meant to ask was whether you personally approved of short selling.

Mr. STURGIS. It sounded differently to my ears.

Mr. UNTERMYER. Do you, Mr. Sturgis?

Mr. STURGIS. I told you I never sold a share of stock short in my life.

Mr. UNTERMYER. That has nothing to do with the question.

Mr. STURGIS. That has everything to do with the question.

Mr. UNTERMYER. Do you approve of short selling in others?

Mr. STURGIS. Under what conditions?

Mr. UNTERMYER. Under any conditions.

Mr. STURGIS. Yes; under some conditions.

Mr. UNTERMYER. Do you approve of short selling in a normal market.

Mr. STURGIS. I will answer that question by saying it is a moral question with the individual himself. It is not up to me to express my opinion upon it.

Mr. UNTERMYER. Do you personally approve of short selling in a normal market?

Mr. STURGIS. Not I, personally; no.

Mr. UNTERMYER. You do not. And is it or not the fact that the bulk of the short selling is done in a normal market?

Mr. STURGIS. I should say no; more often on an excited market.

Mr. UNTERMYER. It is done every day, is it not?

Mr. STURGIS. Oh, yes; to some extent.

Mr. UNTERMYER. And it is done in large volume, is it not?

Mr. STURGIS. At times.

Mr. UNTERMYER. The stock exchange does not discourage it, does it?

Mr. STURGIS. The stock exchange does not enter into it at all.

Mr. UNTERMYER. The stock exchange does not discourage short selling, does it?

Mr. STURGIS. The stock exchange takes no position in the matter at all.

Mr. UNTERMYER. Has the stock exchange any rule or regulation against short selling?

Mr. STURGIS. None.

Mr. UNTERMYER. Why is it not just as simple a matter for them to have a regulation against short selling as to have a regulation against a broker splitting his commissions?

Mr. STURGIS. There is no regulation against short selling; that is all I can say to you about it.

Mr. UNTERMYER. But I say it is just as practicable, is it not, to have a regulation against short selling as against a broker splitting commissions?

Mr. STURGIS. No; it is not as practicable, because it is quite impossible to tell, when the stocks are sold, whether they are sold for long account or short account.

Mr. UNTERMYER. Let us see about that. The books of the broker would show, would they not?

Mr STURGIS. Not necessarily.

Mr. UNTERMYER. Would not the books of a broker necessarily show whether, when he sold a thousand shares of a given stock, he had that stock on his books?

Mr. STURGIS. Certainly not. The stock might be in Chicago.

Mr. UNTERMYER. Never mind where the stock was. Would not his books show what securities he owned?

Mr. STURGIS. They might be in Chicago.

Mr. UNTERMYER. I do not care where they are. The question is, Would not the broker's books show whether he owned that particular stock or not?

Mr. STURGIS. Not the individual broker in New York who made the transaction; certainly not.

Mr. UNTERMYER. We are speaking of transactions that are made by members of your exchange in the way of short selling. Would not their books show whether or not they were selling short?

Mr. STURGIS. If the broker is operating for his own account; yes.

Mr. UNTERMYER. And you say from a quarter to a half of the transactions on the exchange are for the broker's own account?

Mr. STURGIS. We agreed upon a third, I think.

Mr. UNTERMYER. Yes. Would not the broker's books show whether he was operating for a customer in the selling of short stocks or not?

Mr. STURGIS. Not necessarily; no.

Mr. UNTERMYER. Let us see if they would not. Does not the broker immediately send the customer a statement?

Mr. STURGIS. Yes; in the main.

Mr. UNTERMYER. When the broker sells a stock has he not got to deliver it?

Mr. STURGIS. Yes.

Mr. UNTERMYER. The same evening, has he not?

Mr. STURGIS. No; it goes through the clearing house.

Mr. UNTERMYER. I mean he has got to deliver it at the clearing house the same evening, has he not?

Mr. STURGIS. He has got to make his clearances.

Mr. UNTERMYER. And if the customer has not got the stock that he has sold, then the broker borrows it, does he not?

Mr. STURGIS. Yes.

Mr. UNTERMYER. This business of borrowing for delivery is a very common business, is it not?

Mr. STURGIS. Yes.

Mr. UNTERMYER. There is a regular price paid for it, is there not?

Mr. STURGIS. I do not know about that.

Mr. UNTERMYER. Do you not know that a given price is paid for the use of short stock?

Mr. STURGIS. Very rarely is there any premium on short stocks.

Mr. UNTERMYER. There are times when there is a premium, are there not?

Mr. STURGIS. Very seldom.

Mr. UNTERMYER. At any rate, when the broker sells for a customer and the customer has not got the stock, the broken has to borrow it, does he not?

Mr. STURGIS. Yes.

Mr. UNTERMYER. And when he borrows that stock he has got to pay interest, has he not, to the commission house from which he borrows it?

Mr. STURGIS. He pays interest on the market value.

Mr. UNTERMYER. Of the stock that is borrowed?

Mr. STURGIS. Of the stock that is borrowed.

Mr. UNTERMYER. And he charges that against the customer, does he not?

Mr. STURGIS. No; he does not.

Mr. UNTERMYER. He credits the customer who is a short seller, does he not?

Mr. STURGIS. It depends entirely—that is a matter of agreement between the customer and the broker.

Mr. UNTERMYER. But when the broker delivers his statement of account to the customer it appears whether the customer is short of that stock or whether he is not, does it not?

Mr. STURGIS. The stock may be——

Mr. UNTERMYER. Oh, Mr. Sturgis——

Mr. STURGIS. Wait a minute. Let me answer the question as it should be answered. The stock may be in the course of transit; it may be coming from California; it may be in the transfer office; it may not be a good delivery; it may have been sold for an estate, and you may have to wait until you can get an order of court. There are many cases where stocks are apparently sold short on a broker's books when it is not really a short sale at all.

Mr. UNTERMYER. Those are very exceptional instances, are they not?

Mr. STURGIS. I want to give you a perfectly full answer.

Mr. UNTERMYER. I say, those are very exceptional instances, are they not, in the ordinary course of business?

Mr. STURGIS. Not with the enormous wire business done in the city of New York through the western houses——

Mr. UNTERMYER. It is a very exceptional instance, is it not?

Mr. STURGIS. No; there are very frequent instances.

Mr. UNTERMYER. Let us assume that to be so. A time comes after the sale some time, does it not, when the books of the broker show whether that stock has been delivered to him by the customer?

Mr. STURGIS. Ultimately; yes.

Mr. UNTERMYER. Ultimately, when you go to examine that broker's books as to the transaction that has been closed, you can tell whether it is a short sale or not?

Mr. STURGIS. Truly.

Mr. UNTERMYER. So that an examination of the broker's books in the city of New York would show clearly, would it not, the stock on closed transactions that had been sold short?

Mr. STURGIS. If you go over a sufficient length of time.

Mr. UNTERMYER. And it would also disclose the fact, would it not, when the broker himself had sold short?

Mr. STURGIS. Yes.

Mr. UNTERMYER. Is it or not the fact, then, that the stock exchange by periodic examinations could find out the instances in which brokers were selling stocks short?

Mr. STURGIS. I think they could, Mr. Untermyer.

Mr. UNTERMYER. Is it not also the fact that by an examination of the books of the stockbrokers, members of your exchange, every case of manipulation could be readily discovered and pointed out?

Mr. STURGIS. You ask me the question?

Mr. UNTERMYER. Yes.

Mr. STURGIS. I should think it would be very much more difficult.

Mr. UNTERMYER. Do you not know that it is done, and proven in lawsuits, and proven otherwise?

Mr. STURGIS. It has been done.

Mr. UNTERMYER. It can be done, can it not?

Mr. STURGIS. It can be done.

Mr. UNTERMYER. If the stock exchange, therefore, wanted to put an end to manipulation or to short selling it could do so by auditing the books of the brokers, could it not?

Mr. STURGIS. You mean to forbid short selling by making a constitutional amendment?

Mr. UNTERMYER. If they wanted to do so, yes. You do not think they would do so?

Mr. STURGIS. They never have met that issue.

Mr. UNTERMYER. Have you pressed it on them?

Mr. STURGIS. I have not.

Mr. UNTERMYER. You say you have been for how many years a member of the board of governors?

Mr. STURGIS. I told you I had been a member of the board of governors for 36 years.

Mr. UNTERMYER. And president of the exchange?

Mr. STURGIS. And president of the exchange.

Mr. UNTERMYER. And during all that time, with the views you now say you hold with respect to short selling, have you urged them upon the board of governors or upon the exchange?

Mr. STURGIS. It is not a part of my duty to give moral lessons to other members of the community.

Mr. UNTERMYER. I did not ask that.

Mr. STURGIS. That is the answer I make to your question.

Mr. UNTERMYER. The question is, have you done so?

Mr. STURGIS. I have not.

Mr. UNTERMYER. Have you expressed your views to your colleagues?

Mr. STURGIS. At times.

Mr. UNTERMYER. And the views you have expressed are the views you now state?

Mr. STURGIS. They are.

Mr. UNTERMYER. There is a certain justification offered for short selling, is there not?

Mr. STURGIS. Many people think so, Mr. Untermyer.

Mr. UNTERMYER. And the justification offered is, is it not, that it tends to prevent, we will say, undue inflation of prices, and also supports the market when there is undue depression, in covering short sales?

Mr. STURGIS. It has been found very useful in the sustaining of a weak market to have a short interest existing in it.

Mr. UNTERMYER. Is it claimed also that it has been found very useful in putting a brake upon a very rapidly ascending market?

Mr. STURGIS. I think so.

Mr. UNTERMYER. I think that in fairness to the exchange those ought to be stated as the arguments offered in its defense.

Mr. STURGIS. Yes. I think there is generally a difference of opinion on almost all subjects.

Mr. UNTERMYER. You do not think those arguments are sufficient to outweigh the moral obloquy of the transaction?

Mr. STURGIS. Personally, no.

Mr. UNTERMYER. It is gambling, pure and simple, is it not?

Mr. STURGIS. Very largely.

Mr. UNTERMYER. Do you regard the New York Stock Exchange and its relations to the public or the country and to foreign countries as a purely private affair, or do you believe it has public functions and duties to perform?

Mr. STURGIS. I think the members have their respective duties. The exchange has no particular duty to the public, as an exchange, more than to provide a proper place and surround business with proper restrictions.

Mr. UNTERMYER. But do you not recognize, Mr. Sturgis, that the exchange as such has important duties to the public?

Mr. STURGIS. We believe those duties are safeguarded by the constitution of the exchange.

Mr. UNTERMYER. That is not the question I asked, Mr. Sturgis, nor anywhere near it.

By request, the stenographer repeated the question, as follows:

> Mr. UNTERMYER. But do you not recognize, Mr. Sturgis, that the exchange as such has important duties to the public?

Mr. STURGIS. The exchange as a body?

Mr. UNTERMYER. The exchange as an institution.

Mr. STURGIS. Yes.

Mr. UNTERMYER. What relation does it bear to the banks?

Mr. STURGIS. The exchange as an institution has practically no relation directly with the banks.

Mr. UNTERMYER. Let us see. Is it or not the fact that the banks lend upon the market quotations as recorded by the exchange?

Mr. STURGIS. Yes; that is true.

Mr. UNTERMYER. And if those quotations do not represent actual transactions, but represent manipulation or a washing, the banks of the country as misled to that extent, are they not?

Mr. STURGIS. They have their market price for their securities.

Mr. UNTERMYER. No; that is not the question.

Mr. STURGIS. I do not think they are misled.

Mr. UNTERMYER. I say, if the price is made by manipulation and is artificial and the banks are lending on the basis of that quoted price, the banks are misled?

Mr. STURGIS. It does not follow that it is artificial. It is made in open market between buyer and seller.

Mr. UNTERMYER. If the prices are manipulated, are not the banks misled to that extent?

Mr. STURGIS. I do not think so.

Mr. UNTERMYER. So that you think that a manipulated price of a security is as fair an indication of its value as if the market were left free to the real buyers and sellers?

Mr. STURGIS. In the majority of instances; yes.

Mr. UNTERMYER. Why do you say "in a majority of instances"?

Mr. STURGIS. Because there are exceptions to all rules.

Mr. UNTERMYER. To the extent of those exceptions, I believe, you will admit that the banks are misled?

Mr. STURGIS. It might take place; yes.

Mr. UNTERMYER. Does not that, in your judgment, impose upon the stock exchange the duty of preventing transactions by which the bands are misled?

Mr. STURGIS. Where the transactions are dangerous, to the best of its ability; yes.

Mr. UNTERMYER. Do you think it is able to differentiate so nicely with respect to what is regarded as dangerous or not?

Mr. STURGIS. I think it is a very difficult thing to do.

Mr. UNTERMYER. Suppose we take a transaction that you probably have in mind. You remember the Rock Island manipulation of December, 1909?

Mr. STURGIS. Perfectly.

Mr. UNTERMYER. You remember it very well?

Mr. STURGIS. I do.

Mr. UNTERMYER. In what did that consist?

Mr. STURGIS. You want me to tell you the story as it took place?

Mr. UNTERMYER. Yes.

Mr. STURGIS. The firm of S. B. Chapin & Co., a very reputable, very wealthy firm, received from a very influential operator, a man of large wealth, an order to buy 20 different lots of 2,000 shares each of Rock Island, making an aggregate of 40,000 shares. The orders went in simultaneously. The stock was unduly excited, and rose.

Mr. UNTERMYER. From where to where?

Mr. STURGIS. I do not remember the figures exactly, but it rose abnormally.

Mr. UNTERMYER. Did it not go from $39 to $81 in two hours.

Mr. STURGIS. I said I do not remember the figures.

Mr. UNTERMYER. But does not that refresh your recollection?

Mr. STURGIS. No; it does not. We will say, approximately.

Mr. UNTERMYER. Those are the approximate figures?

Mr. STURGIS. Yes.

Mr. UNTERMYER. Yes. Then what happened?

Mr. STURGIS. The collapse followed.

Mr. UNTERMYER. Within three hours the stock came down to what price?

Mr. STURGIS. The stock fell back practically to where it started.

Mr. UNTERMYER. It fell to below where it started, did it not?

Mr. STURGIS. I do not remember that point.

Mr. UNTERMYER. What was the purpose of that operator in instructing that broker to buy 40,000 shares, I think it was, in 20 different lots, instead of buying the 40,000 shares in the normal course of business?

Mr. STURGIS. I could not answer your question.

Mr. UNTERMYER. As an experienced man in the stock exchange, you know what the effect of it would be?

Mr. STURGIS. I do.

Mr. UNTERMYER. Did not the operator instruct the broker to place those orders with 20 different stock-exchange houses?

Mr. STURGIS. He did.

Mr. UNTERMYER. So that they would all be executed at the same time?

Mr. STURGIS. Yes.

Mr. UNTERMYER. And the purpose of that was to get those 20 houses bidding against one another for that stock?

Mr. STURGIS. I do not know what the purpose was. I know what the result was.

Mr. UNTERMYER. The result was the natural result of such a transaction?

Mr. STURGIS. Yes.

Mr. UNTERMYER. What was the result?

Mr. STURGIS. The result I have just told you. The stock rose abnormally and fell back again practically to where it started.

Mr. UNTERMYER. It fell back as soon as the orders had been executed?

Mr. STURGIS. Yes.

Mr. UNTERMYER. During that time do you know how many shares of stock were traded in on the exchange?

Mr. STURGIS. I do not.

Mr. UNTERMYER. Were there not 217,563 shares?

Mr. STURGIS. I have no idea.

Mr. UNTERMYER. You remember that it was over 200,000, do you not?

Mr. STURGIS. I do not remember the figures at all. I remember the incident, but not the figures.

Mr. UNTERMYER. Do you not remember——

Mr. STURGIS (interposing). I do not remember the figures, Mr. Untermyer.

Mr. UNTERMYER. You must have some idea about it.

Mr. STURGIS. I have a very vague idea.

Mr. UNTERMYER. Was it on the 27th day of December, 1909?

Mr. STURGIS. I could not tell you that.

Mr. UNTERMYER. We will put in the record at this stage the fact that it was the 27th of December.

When there is a movement of that kind on, stock becomes very active, does it not, Mr. Sturgis?

Mr. STURGIS. Temporarily; yes.

Mr. UNTERMYER. I mean during the movement?

Mr. STURGIS. Yes.

Mr. UNTERMYER. What is the effect of that activity in drawing in the public and in drawing in other brokers into the maelstrom?

Mr. STURGIS. It varies. Sometimes it has no influence and sometimes it has a marked influence.

Mr. UNTERMYER. The purpose of it is to have an influence, is it not?

Mr. STURGIS. Not necessarily.

Mr. UNTERMYER. What is the purpose of it?

Mr. STURGIS. I do not know what the gentleman's purpose was who gave that order. I have no idea. I have not the slightest idea why he gave such an order. I can tell you, if you will let me go on, what the result of it was as far as the governors of the stock exchange were concerned.

Mr. UNTERMYER. Yes; go on, please.

Mr. STURGIS. They sent for Messrs. Chapin & Co., and after listening to their story they preferred charges against them for transacting business in a manner by which the good repute of the exchange should suffer. I think that is the nature of the charge.

Mr. UNTERMYER. Yes.

Mr. STURGIS. And they disciplined them.

Mr. UNTERMYER. Tell us how severely they disciplined them.

Mr. STURGIS. I think that they suspended Mr. Countis for 30 days, and Mr. Chapin, I think, for 60 days.

Mr. UNTERMYER. No. It was 30 days as to each, was it not?

Mr. STURGIS. Thirty and sixty, I think.

Mr. UNTERMYER. Was it not 30 days only as to Mr. Chapin?

Mr. STURGIS. No.

Mr. UNTERMYER. Do you remember whether the 30 days was as to one or two of them?

Mr. STURGIS. You have the record there, Mr. Untermyer.

Mr. UNTERMYER. Have you that record here, Mr. Taylor?

Mr. TAYLOR. No. It has been furnished to you.

Mr. UNTERMYER. At any rate, we will put it in the record.

Mr. STURGIS. You have it in the record which the stock exchange sent you.

Mr. UNTERMYER. I will put it in the record.

That was the most glaring case of manipulation ever presented on the stock exchange, was it not?

Mr. STURGIS. That is hardly a fair criticism to pass upon it, Mr. Untermyer. It was a legitimate order given. The results of it were very unfortunate, and the governors of the exchange thought that Mr. Chapin was very unwise to have executed the order in the way he did, and they disciplined him therefor. I do not consider, necessarily, that that was an evidence of manipulation.

Mr. UNTERMYER. Do you mean to say, Mr. Sturgis, that you regarded the act of Mr. Chapin or the instructions of his principal in distributing that order to 20 brokerage houses as a legitimate thing?

Mr. STURGIS. No. We punished Mr. Chapin for that.

Mr. UNTERMYER. But you stated that it was legitimate, did you not?

Mr. STURGIS. You misunderstood me, Mr. Untermyer. I said that the purchase of 40,000 shares, the actual buying of the stock, was legitimate, but the manner in which it was done was what we punished Mr. Chapin for.

Mr. UNTERMYER. That was illegitimate?

Mr. STURGIS. We regarded it as subversive of good decorum and discipline in the exchange.

Mr. UNTERMYER. Do you not think there is rather a disproportion between suspending a man for 30 days for engaging in that sort of a transaction as against expelling him or suspending him for five years for giving away part of his commissions?

Mr. STURGIS. I will answer that in this way, Mr. Untermyer: Mr. Chapin's firm violated no fixed rule of the exchange, except in so far as his conduct was subversive of good order and decorum and was conduct by which the good repute and welfare of the exchange might suffer. The violation of the commission law we regard as one of the most infamous crimes that a man can commit against his fellow members in the exchange, and as a gross breach of good faith, and wrongdoing of the most serious nature, and we consider it a crime that we should punish as severely as, in the judgment of the governing committee, the constitution permits.

Mr. UNTERMYER. Have you ever considered what the enforcement of the commission rule means?

Mr. STURGIS. I have considered the commission rule from all standpoints.

Mr. UNTERMYER. Have you considered the righteousness of a rule that forbids the brokers to compete with one another for business by offering inducements to the public?

Mr. STURGIS. When they join the stock exchange they join it with the knowledge that that rule exists. If they do not want to join the exchange they need not come there.

Mr. UNTERMYER. Have you ever considered whether such a rule violates the law?

Mr. STURGIS. I have never considered that.

Mr. UNTERMYER. You have not? But the breach of that rule by a broker you consider the most heinous crime he can commit?

Mr. STURGIS. It is absolute bad faith to his fellow men.

Mr. UNTERMYER. The record shows that Mr. Chapin was suspended for 60 days and Mr. Countis for 30 days. In the course of the taking of evidence in that case—the Rock Island case—by the committee, did you ascertain whether or not this occurrence took place by reason of the failure of Chapin to give the selling orders at the same time he gave the buying orders?

Mr. STURGIS. No, Mr. Untermyer. You have the stenographic notes here, and I would submit those in evidence

Mr. UNTERMYER. If this had been the ordinary manipulation, the selling orders of Chapin would have accompanied the buying orders?

Mr. STURGIS. I know nothing about the object of giving that order. I have already testified that I am absolutely ignorant of why it was given.

Mr. UNTERMYER. And with all your experience you can not conceive of any reason?

Mr. STURGIS. I do not have to conceive; I know nothing about it.

Mr. UNTERMYER. We want your judgment.

Mr. STURGIS. I can not give you my judgment.

Mr. UNTERMYER. You are an expert and we are laymen.

Mr. STURGIS. Mr. Untermyer, I have told you that that order was given, and I do not know any more about why it was given than if I were not a member of the exchange. I have not the slightest knowledge.

Mr. UNTERMYER. That brings us back to the discussion of the duties and obligations of the exchange to the public. Is it not its first obligation, in your judgment, to see that the quotations are the honest representation and reflection of the actual values on the stock exchange?

Mr. STURGIS. The values at which stocks can be bought and sold at the times those quotations were made in an open market.

Mr. UNTERMYER. But do you not think they should represent something a little more than the prices at which they can be bought and sold?

Mr. STURGIS. The stock exchange position is that they furnish a place where others make quotations, and as long as those quotations are made in accordance with the rules of the exchange it is not the business of the exchange to know the motive of the individual.

Mr. UNTERMYER. No; we are not inquiring about the motive of the indiviidual; but does not the stock exchange do something more than merely supply a place? Does it not supply quotations throughout the world?

Mr. STURGIS. The exchange makes no quotations. The individuals make the quotations.

Mr. UNTERMYER. Answer the question. Does not the exchange supply the quotations all over the world?

Mr. STURGIS. The individuals make the quotations, and they go out over the wires of the Western Union Telegraph Co. The exchange is not responsible for them, and does not buy nor sell a share of stock.

Mr. UNTERMYER. If you will answer my questions, perhaps we will get along better. You do answer them generally, but occasionally you do not. The question is, Does or does not the exchange distribute those quotations throughout the world, through the quotation company?

Mr. STURGIS. Through the medium of the Western Union Quotation Co.

Mr. UNTERMYER. Now, does it not do so through the medium of the quotation company owned by the exchange?

Mr. STURGIS. It distributes those to the members of the stock exchange only.

Mr. UNTERMYER. Yes; but does it not also deliver them to the Western Union Telegraph Co. for distribution all over the world?

Mr. STURGIS. I have just so stated.

Mr. UNTERMYER. Yes; so would you regard it as accurate to say that all the exchange does is to supply a place to deal in?

Mr. STURGIS. Those are not the official records of the exchange. The exchange does not even publish them. Those records are made by the individual members of the exchange acting for themselves, or others, and the exchange passes them out for precisely what they are.

Mr. UNTERMYER. How much does the exchange get from the Western Union for selling those quotations to them?

Mr. STURGIS. You have the contract here. I would rather you would refer to it.

Mr. UNTERMYER. No; the amount is not stated.

Mr. STURGIS. In the contract?

Mr. UNTERMYER. What is the revenue to the New York Stock Exchange from the sale of those quotations?

Mr. STURGIS. I think the Western Union Telegraph Co. pays $100,000 a year.

Mr. UNTERMYER. For those quotations?

Mr. STURGIS. Yes.

Mr. UNTERMYER. That brings me back to the question as to whether, in your judgment, the New York Stock Exchange is not under an obligation to enforce such rules as would make it reasonably certain that those quotations represent actual, bona fide dealings as against manipulations?

Mr. STURGIS. We endeavor to do so.

Mr. UNTERMYER. But do you not think it is your duty?

Mr. STURGIS. We do it to the best of our ability.

Mr. UNTERMYER. But you have told us that manipulation is legitimate.

Mr. STURGIS. Certainly it is, where the commissions are paid on both sides and the transaction is in good faith.

Mr. UNTERMYER. Do you not think it is the duty of the stock exchange to stop manipulation so as to see to it that those quotations represent actual, bona fide dealings other than manipulations?

Mr. STURGIS. Those transactions——

Mr. UNTERMYER. Will you not answer the question?

Mr. STURGIS. I will not answer it "yes" or "no," because I can not answer it justly in that way.

Mr. UNTERMYER. Answer it in some way, please.

Mr. STURGIS. I have told you already, Mr. Untermyer, that what the stock exchange regarded as legitimate transactions were where they paid the commissions on both sides, and the transaction was in accordance with the rules of the exchange. We can not carry parentalism too far. We can not go into a man's motives and methods and ascertain exactly whom he does business for and how much business he does and where he does it and how he does it. We do the best we can. When the transactions are upon the floor of the exchange it is an open matter, and any man who is a member of the exchange can go in there and buy or sell those stocks. If he does not think the market is a fair market, he need not make use of it. But if he does think it is a fair market, and does make use of it, then it becomes a legitimate matter in so far as the quotations are concerned.

Mr. UNTERMYER. Do you think you have answered my question?

Mr. STURGIS. I do.

Mr. UNTERMYER. I will have it read to you.

(The stenographer read as follows:)

> Mr. UNTERMYER. Do you not think it is the duty of the stock exchange to stop manipulation so as to see to it that those quotations represent actual, bona fide dealings other than manipulations?

Mr. STURGIS. Not the manipulation which we consider legitimate. I do not consider it is our business to stop it.

Mr. UNTERMYER. That is an answer; the other was not. You could stop it if you wanted to, could you not?

Mr. STURGIS. I think not.

Mr. UNTERMYER. Did you not tell me a few minutes ago that you could, by going into the broker's books?

Mr. STURGIS. In some glaring instances; yes.

Mr. UNTERMYER. Do you mean to say that you can not in every instance by looking at the books?

Mr. STURGIS. I do not think we would have the human time, in the course of a year, to go over the books of every member of the stock exchange.

Mr. UNTERMYER. Could you not employ accountants?

Mr. STURGIS. How many accountants would it take?

Mr. UNTERMYER. I say could you not employ accountants?

Mr. STURGIS. I suppose we could employ a mass of accountants.

Mr. UNTERMYER. Do you mean to tell us, Mr. Sturgis, in all seriousness, that you can not run your eye over the transactions of a month on the stock exchange and point out, by the amount of dealings as compared with the capital, the securities in which there have been glaring manipulations?

Mr. STURGIS. No; I can not.

Mr. UNTERMYER. Take, for instance, a security like the Reading, that has a million shares outstanding, and that deals in 43,000,000 shares in a year.

Mr. STURGIS. Yes.

Mr. UNTERMYER. Would you consider that a glaring case in which there had been manipulation?

Mr. STURGIS. I can not answer that question. It might be legitimate; it might not.

Mr. UNTERMYER. You think it might be perfectly legitimate public buying?

Mr. STURGIS. I think it might.

Mr. UNTERMYER. For the capital of a company to be exchanged 43 times over in a year?

Mr. STURGIS. I do.

Mr. UNTERMYER. Do you not think that by looking at the transfer books of a company and comparing them with the transactions in the exchange, you would get any light on the subject?

Mr. STURGIS. Very little; because the certificates of Reading pass current in the names of stock-exchange firms, and you could get very little light on those matters from those certificates.

Mr. UNTERMYER. The Reading is a dividend-paying stock, is it not?

Mr. STURGIS. Yes.

Mr. UNTERMYER. And do the certificates of Reading pass curent in the hands of investors who want the dividends?

Mr. STURGIS. Frequently.

Mr. UNTERMYER. One moment—and stay there in the names of stock-exchange firms?

Mr. STURGIS. Frequently.

Mr. UNTERMYER. That is the rule, is it?

Mr. STURGIS. I said "frequently."

Mr. UNTERMYER. But is that the rule?

Mr. STURGIS. There is no rule.

Mr. UNTERMYER. Do you not know that when people buy stocks, as a rule, for investment—dividend-paying stocks—they have them put into their own names so that the dividends will be paid to them?

Mr. STURGIS. On the contrary, a great many people prefer to leave them in the name of their banker so that their dividends go to the banker and are put to their credit on the banker's books.

Mr. UNTERMYER. Is that so as to the small investors all over the country?

Mr. STURGIS. That is so as regards a great many of the small investors.

Mr. UNTERMYER. Then, as I understand you, it is your opinion that the investments all over this country in railroad securities held by the small investor are not held by him at all, but are in the hands of bankers?

Mr. STURGIS. On the contrary, they belong to him, but they are deposited with bankers for the purpose of collecting the dividends, in many instances.

Mr. UNTERMYER. But your experience is, then, is it, that the bulk of investment securities held by the small investors are not in their names, and that the dividends do not come to them as a rule, but that they go to some banker or broker?

Mr. STURGIS. I said "frequently." I never said "the bulk."

Mr. UNTERMYER. Do you say the bulk?

Mr. STURGIS. No; I do not.

Mr. UNTERMYER. What proportion of them do you say?

Mr. STURGIS. It is impossible to answer such a question.

Mr. UNTERMYER. It is a very small proportion, is it not?

Mr. STURGIS. I am unable to answer your question.

Mr. UNTERMYER. In your judgment, what is the effect on foreign confidence in our financial institutions of these manipulative transactions such as those in Hocking and Reading that have been introduced in evidence here?

Mr. STURGIS. I think it is undesirable.

Mr. UNTERMYER. You think it shakes foreign confidence in us?

Mr. STURGIS. Yes, Mr. Untermyer.

Mr. UNTERMYER. It hurts our financial credit and standing?

Mr. STURGIS. It does.

Mr. UNTERMYER. Viewed in that aspect, are you of the opinion that the stock exchange does not perform a public function, so that its affairs ought to be subject to any public regulation whatever?

Mr. STURGIS. Mr. Untermyer, you have instanced Hocking coal. Will you let me tell you something about Hocking coal?

Mr. UNTERMYER. Why, yes; certainly, if you like.

Mr. STURGIS. At the time the movement began in Hocking coal, the firm that was more prominently buying the stock upon the floor being a very respectable house of moderate capital, the president on two occasions, by the request of the law committee, sent for that firm and said: "You seem to be doing a business which is beyond your ordinary rate." They produced their balance sheets as regards their capital which was unimpaired and quite reasonable. They also showed that they had a very moderate amount—that they had not, in proportion to their capital, overbought at that time. They were then sent for a second time; and when the crisis finally came that firm was promptly disciplined by the governors of the exchange, declared forever ineligible for reelection, and their membership was sold.

Mr. UNTERMYER. That was after they failed, was it not?

Mr. STURGIS. We had them twice cautioned.

Mr. UNTERMYER. But, Mr. Sturgis, they went bankrupt, did they not, first?

Mr. STURGIS. Not before we cautioned them.

Mr. UNTERMYER. But they went bankrupt?

Mr. STURGIS. Ultimately.

Mr. UNTERMYER. Yes; they ultimately went bankrupt?

Mr. STURGIS. They did.

Mr. UNTERMYER. Do you not think it is a very easy thing for the stock exchange to expel a firm that is bankrupt and out of business?

Mr. STURGIS. Sometimes we reinstate bankrupts.

Mr. UNTERMYER. Yes; but what good does it do to expel a firm after it has become bankrupt?

Mr. STURGIS. Because it puts the seal of disapproval of the stock exchange upon the irregularity of their transactions. You asked me what effect these matters had in foreign countries.

Mr. UNTERMYER. What happened to Mr. Keene? Did anything happen to him?

Mr. STURGIS. Mr. Keene is not a member of the stock exchange and never has been.

Mr. UNTERMYER. Was it not generally known that he was conducting this pool?

Mr. STURGIS. We have no access to Mr. Keene's books.

Mr. UNTERMYER. It was known that he was conducting it, though, was it not?

Mr. STURGIS. I can not answer that question.

Mr. UNTERMYER. Have you not seen the pool agreement with eight or nine stock exchange houses?

Mr. STURGIS. No; I have not seen the pool agreement.

Mr. UNTERMYER. It was in evidence here.

Mr. STURGIS. I have not seen it.

Mr. UNTERMYER. You knew, did you not, that besides Mr. Keene there were eight or nine stock exchange houses in that pool?

Mr. STURGIS. And two of them were declared forever ineligible for reelection.

Mr. UNTERMYER. Those were the ones that failed, were they not?

Mr. STURGIS. Those were the ones that failed.

Mr. UNTERMYER. The seven others that did not fail were not disciplined at all, were they?

Mr. STURGIS. They were. They were criticized and cautioned, and a vote of censure passed upon them.

Mr. UNTERMYER. Were they disciplined?

Mr. STURGIS. Yes; I told you a vote of censure was passed by the governing committee.

Mr. UNTERMYER. A vote of censure?

Mr. STURGIS. Yes.

Mr. UNTERMYER. Were they suspended or expelled?

Mr. STURGIS. They were not insolvent.

Mr. UNTERMYER. Oh. These others were expelled for insolvency, were they?

Mr. STURGIS. They were expelled because they were insolvent and because of the manner in which they became insolvent, both.

Mr. UNTERMYER. I see. Those who did the same thing, but did not become insolvent were neither suspended nor expelled were they?

Mr. STURGIS. They were censured.

Mr. UNTERMYER. Yes; but I say they were neither suspended nor expelled?

Mr. STURGIS. They were not.

Mr. UNTERMYER. I should like to know why you should expel two members of a pool out of seven stock exchange firms for doing the same thing that the other five did, simply because those two happened to fail at it?

Mr. STURGIS. Because they went away beyond their means.

Mr. UNTERMYER. Oh, I see. Then, what these men who failed were expelled for was for going beyond their means, but not for the character of the transaction?

Mr. STURGIS. Reckless dealing—dealing recklessly.

Mr. UNTERMYER. The others, you thought, did not deal recklessly?

Mr. STURGIS. Yes; they did, and they were censured for it; but they were not insolvent, and they were not rendered amenable to the constitution under those conditions.

Mr. UNTERMYER. Do you mean to say that the things these seven firms did were not punishable under the constitution?

Mr. STURGIS. No; they were not punishable.

Mr. UNTERMYER. Do you not think they ought to be?

Mr. STURGIS. We have not thought so heretofore.

Mr. UNTERMYER. Do you not think so?

Mr. STURGIS. I do not think so; no.

Mr. UNTERMYER. You have not amended your constitution, have you?

Mr. STURGIS. No.

Mr. UNTERMYER. Do you think that that kind of action on the part of the exchange tends to increase public confidence?

Mr. STURGIS. Mr. Untermyer, men will always do wrong as long as the world lives, and we punish them when we find it out. We can not always anticipate it.

Mr. UNTERMYER. You have brought up this Hocking transaction. Will you tell me why you did not punish the others when they did the same thing?

Mr. STURGIS. Because they did not do the same thing. The two firms that were put out of the exchange were put out because of reckless deaings. The other firms were well inside their means. They could take care of the stocks they bought and pay for them.

Mr. UNTERMYER. Then the rigging of the market was not the thing that you punished in those that failed, but it was the rigging of the market because they were not as well able to pay?

Mr. STURGIS. I am not conversant——

Mr. UNTERMYER. I do not exactly understand——

Mr. STURGIS. I do not understand, either.

Mr. UNTERMYER (continuing). I do not exactly understand your moral distinction. I wish you would make it plain.

Mr. STURGIS. I have nothing more to say about it, Mr. Untermyer.

Mr. UNTERMYER. Would you not like to say something more about it?

Mr. STURGIS. No. I have told you the exact facts as far as I know them.

Mr. UNTERMYER. How long before this collapse in the pool was it that you sent for these gentlemen and they presented you with a statement of the affairs of the Hocking Coal & Iron Co.?

Mr. STURGIS. I can not tell you exactly. Mr. Thomas, the then president of the exchange, sent for them.

Mr. UNTERMYER. About how long?

Mr. STURGIS. I could not tell you that exactly.

Mr. UNTERMYER. Just a few weeks?

Mr. STURGIS. Yes.

Mr. UNTERMYER. Did you see the statement they presented?

Mr. STURGIS. I did not.

Mr. UNTERMYER. You never have seen it?

Mr. STURGIS. Never.

Mr. UNTERMYER. They had seven millions of stock out, did they not?

Mr. STURGIS. The company?

Mr. UNTERMYER. The company.

Mr. STURGIS. Seventy thousand shares, yes.

Mr. UNTERMYER. Do you know how much money they had ever earned?

Mr. STURGIS. I am not conversant with the affairs of the Hocking Coal & Iron Co.

Mr. UNTERMYER. I have here a statement of their profits year by year. Will you look at it [handing paper to witness]? Do you see anything in that that would justify the price at which the stock was being "boosted"? You notice that they had a bonded debt, did they not? Did you notice that?

Mr. STURGIS. Yes, sir.

Mr. UNTERMYER. They had a bonded debt of $1,400,000. You observed that?

Mr. STURGIS. Yes, sir.

Mr. UNTERMYER. And did you notice what their highest profits had been in any one year?

Mr. STURGIS. Mr. Untermyer, I have just told you I never had paid any attention to that.

Mr. UNTERMYER. It appears there to have been $47,000. That was after paying their interest on their bonds, according to this statement, was it not?

Mr. STURGIS. Yes.

Mr. UNTERMYER. What per cent would that be on $7,000,000?

Mr. STURGIS. Mr. Untermyer, I never have looked into the statement.

Mr. UNTERMYER. $47,000 would be, on $7,000,000, about one-half of 1 per cent of earnings a year, would it not?

Mr. STURGIS. Possibly.

Mr. UNTERMYER. And this stock was put up to how much?

Mr. STURGIS. It rose to eighty something, I think.

Mr. UNTERMYER. Ninety-two, was it not?

Mr. STURGIS. Ninety-two?

Mr. UNTERMYER. There was nothing in the statement that they ever showed you, or that was ever showed the exchange, that justified any such price, was there?

Mr. STURGIS. I think they made a very bad investment when they bought it.

Mr. UNTERMYER. Investment? Who made the investment?

Mr. STURGIS. A very bad purchase, then. We will correct it, and call it that.

Mr. UNTERMYER. The public rushes in when these excitements are created, does it not?

Mr. STURGIS. The public rushed out on this occasion, and sold 40,000 shares of stock.

Mr. UNTERMYER. But the public has got to rush in in order to rush out, has it not?

Mr. STURGIS. The public might have been in a long time before this purchase.

Mr. UNTERMYER. I say as a rule the public must rush in before it can rush out?

Mr. STURGIS. Sometimes the public have been in many, many years.

Mr. UNTERMYER. But ordinarily when excitement and activity is created in a stock, it is for the purpose of getting the public in, is it not?

Mr. STURGIS. No; not necessarily.

Mr. UNTERMYER. Why do these people pay commissions in order to make a stock active, except to get the public in?

Mr. STURGIS. These gentlemen might have really believed that if they went at it properly they could work it up into something very valuable; I do not know.

Mr. UNTERMYER. But even if they had. what would be the advantage of their operating on the stock market and paying commissions?

Mr. STURGIS. I do not know how much they did operate on the stock market. I never considered that side of it.

Mr. UNTERMYER. The question I ask you is whether or not this artificial activity is not made for the purpose of getting the public in?

Mr. STURGIS. I think it varies.

Mr. UNTERMYER. What other purpose can it have?

Mr. STURGIS. I told you yesterday that sometimes it is done for purposes of advertising, making a stock active.

Mr. UNTERMYER. Advertising in order to attract the public?

Mr. STURGIS. Not necessarily.

Mr. UNTERMYER. Whom do they want to attract by advertising?

Mr. STURGIS. They want to get business.

Mr. UNTERMYER. Oh, I see—business for the company?

Mr. STURGIS. Not necessarily. Business for the broker, perhaps.

Mr. UNTERMYER. Let us see what you mean. You did not mean, did you, if a company was engaged in manufacturing locomotives, we will say, that by making the stock active on the stock exchange it would get orders for locomotives?

Mr. STURGIS. Certainly not.

Mr. UNTERMYER. You did not mean that kind of advertising?

Mr. STURGIS. Certainly not.

Mr. UNTERMYER. I am asking you what kind of advertising you meant.

Mr. STURGIS. I explained to you yesterday that they made the stock popular. and that brought business to the Street.

Mr. UNTERMYER. No; I do not understand you yet.

Mr. STURGIS. I can not make myself any plainer.

Mr. UNTERMYER. Let us see. Let us be patient with one another, and perhaps we can. Advertising is generally resorted to for the purpose of attracting business, is it not?

Mr. STURGIS. Yes.

Mr. UNTERMYER. Who are the people who are sought to be attracted by advertising, as you say, by making the stock active?

Mr. STURGIS. People who operate in stocks, Mr. Untermyer, of whom, as you know, there are very many in the community that buy and sell stocks with the hope of making a profit.

Mr. UNTERMYER. Speculating?

Mr. STURGIS. A speculative profit. They are much more likely to be interested in a stock that is active than in one that is inactive. That is what I mean by the advertising of the stock.

Mr. UNTERMYER. I think I understand you, then. What you mean is that the purpose of making stocks active is to get the speculators to trade in them?

Mr. STURGIS. Frequently.

Mr. UNTERMYER. And it costs the pool or syndicate 25 cents a share to do that, does it not?

Mr. STURGIS. Not if they are members of the exchange.

Mr. UNTERMYER. Then the opportunities for members of the exchange to speculate and manipulate are far more numerous and advantageous than the opportunities of the outsider, are they not?

Mr. STURGIS. Unquestionably.

Mr. UNTERMYER. Because they do not have to pay the commissions?

Mr. STURGIS. Quite true.

Mr. UNTERMYER. So that is an inducement to the members to speculate, is it not?

Mr. STURGIS. It might be so regarded.

Mr. UNTERMYER. In this process of advertising by making a stock active, in the light of your experience, Mr. Sturgis, does not that attract the public as well as the brokers?

Mr. STURGIS. Sometimes it fails to attract the public; sometimes it does attract the public.

Mr. UNTERMYER. But it is done for the purpose of attracting the public, is it not?

Mr. STURGIS. It varies.

Mr. UNTERMYER. It is done for that purpose, is it not?

Mr. STURGIS. Not always.

Mr. UNTERMYER. For what other purpose could it be done?

Mr. STURGIS. I have just told you it is done to make the stock active for the brokers themselves.

Mr. UNTERMYER. But when the brokers deal in stocks, do they not advise their customers to deal in them, too?

Mr. STURGIS. Sometimes. Sometimes they want to deal in them personally.

Mr. UNTERMYER. Sometimes they want the whole thing for themselves; is that it?

Mr. STURGIS. They try to, but they do not always succeed.

Mr. UNTERMYER. Until the market gets high, and then they invite their customers to buy; is that it?

Mr. STURGIS. Not necessarily; some of them have no customers.

Mr. UNTERMYER. Is there anything else you would like to say about this subject of manipulation?

Mr. STURGIS. Nothing.

Mr. UNTERMYER. Or as to advertising virtues?

Mr. STURGIS. Nothing.

Mr. UNTERMYER. I think I asked you yesterday, did I not, whether Rock Island common had ever paid a dividend?

Mr. STURGIS. No; you did not ask me. I could not tell you.

Mr. UNTERMYER. You have told us, Mr. Sturgis, that the members of the stock exchange are prohibited from doing business with the active members of the Consolidated Exchange for the reasons you have stated?

Mr. STURGIS. Yes; Mr. Untermyer.

Mr. UNTERMYER. Why is it not equally feasible to prohibit members of the stock exchange from executing orders for big operators who have been known officially to your exchange to be rigging and manipulating the market, as in the two instances to which you have referred?

Mr. STURGIS. I do not think you can possibly control nonmembers of the exchange.

Mr. UNTERMYER. But you are controlling your members and prohibiting them from dealing with Consolidated members. Tell me why you can not prohibit them from dealing with the men who are bringing the exchange into discredit in the respects to which you have referred?

Mr. STURGIS. The Consolidated Exchange has a regular list of its members published. We know who they are. We have not the faintest idea, oftentimes, whom our members have as customers.

Mr. UNTERMYER. But when you have cases before you such as the two to which we have referred, and you learn the names of the men who have been promoting those transactions, why is it not feasible to prohibit your members from taking orders of this character from them—quite as feasible as to prohibit your members dealing with members of the Consolidated Stock Exchange?

Mr. STURGIS. Do you ask me my opinion?

Mr. UNTERMYER. Yes; certainly.

Mr. STURGIS. I do not think that we could possibly control persons who are not affiliated in any manner whatsoever. They are independent citizens. They have a right to do as they please.

Mr. UNTERMYER. Are not the members of the Consolidated Exchange independent citizens?

Mr. STURGIS. Yes; but they are reported members of an opposing institution.

Mr. UNTERMYER. But they are independent of your exchange, are they not?

Mr. STURGIS. Yes; and they are constantly combatting us upon our own ground.

Mr. UNTERMYER. I do not understand how they are any more difficult to reach, as you do reach them under your rules, than would be one of these men when he is discovered by you.

Mr. STURGIS. I can not explain it to you.

Mr. UNTERMYER. Why do you not?

Mr. STURGIS. Because you know, just as well as I do, the nature of the whole transaction.

Mr. UNTERMYER. No. You have told us of the case of Mr. Keene.

Mr. STURGIS. Yes.

Mr. UNTERMYER. He was very culpable?

Mr. STURGIS. I am not expressing an opinion regarding Mr. Keene.

Mr. UNTERMYER. Do you not think he was?

Mr. STURGIS. I do not know enough about it to express my opinion. He is not a member of the exchange.

Mr. UNTERMYER. Do you not know he has been engaged in that sort of business all his life—the same sort of business as the Hocking matter?

Mr. STURGIS. We all know that Mr. Keene has been a large operator in securities.

Mr. UNTERMYER. Why is it that the exchange, then, does not prevent its members from engaging in transactions of that kind for Mr. Keene, after what you discovered of his operations?

Mr. STURGIS. I doubt very much if the exchange would be justified in going as far as that.

Mr. UNTERMYER. Is that all you care to say?

Mr. STURGIS. That is all I care to say.

Mr. UNTERMYER. And you do not care to explain why it is not as easy to do that as to go after a Consolidated Exchange member?

Mr. STURGIS. It is not necessary, I think.

Mr. UNTERMYER. It is not necessary to do that?

Mr. STURGIS. No. I thought I had explained it. It is not necessary for me to say any more about it.

Mr. UNTERMYER. I think that is all, unless your counsel wants me to ask you any questions. I asked him last evening to go over the record and see if there were any questions he desired to have me ask you.

Mr. STURGIS. Yes. You were very courteous about it, Mr. Untermyer.

Mr. UNTERMYER. And you have been over the record, have you not?

Mr. STURGIS. To some extent.

Mr. UNTERMYER. Is there anything you would like to say, or you, Mr. Milburn?

Mr. STURGIS. I would like to ask, Mr. Chairman, if you will allow me to read half a page, one paragraph, of my opening address delivered at the time of the Hughes commission investigation, and I would like to have it read into the record.

The CHAIRMAN. Let us look at it, please, to see if it is germane.

(An informal colloquy followed.)

Mr. UNTERMYER. We will let it be read into the record, Mr. Chairman?

The CHAIRMAN. Certainly. The committee accedes to your request, Mr. Sturgis.

Mr. STURGIS. Thank you. It reads as follows:

The constitution and rules of the stock exchange, formed and framed from year to year, have been the growth of experience, frequently derived through bitter and distressing conditions. They represent the best effort possible by men who have given their lives to this subject to protect not only themselves but those who have done them the honor to intrust to them their business affairs. The exchange has always stood for the best and most upright methods of doing business, respecting its own laws and striving earnestly to obey not only those of the State of New York but the articles which, from time to time, have been adopted by the New York banks, trust companies, and clearing house. While we recognize that self-preservation is the first law of nature, and that we must surround ourselves with all the protections which honorable men may resort to, it has been our consistent and constant endeavor to deal justly between one another, as well as to deal justly with the world at large. The laws of the stock exchange are founded on simple business justice, and with them are combined punishments severe in their nature for wrongs which have been committed, and the daily transactions are so regulated by distinct and accurate rules that there should be no reason for disloyalty on the part of members or misunderstanding on the part of their clients.

I am much obliged to you, gentlemen.

Mr. UNTERMYER. Is that all you would like to say?

Mr. STURGIS. Everything.

Mr. UNTERMYER. That is all, then.

Witness excused.

TESTIMONY OF RUDOLPH KEPPLER.

The witness was sworn by the chairman.

Mr. UNTERMYER. Where do you reside, Mr. Keppler?

Mr. KEPPLER. New York City.

Mr. UNTERMYER. Are you a member of the New York Stock Exchange?

Mr. KEPPLER. I am.

Mr. UNTERMYER. And a member of the board of governors?

Mr. KEPPLER. Yes, sir.

Mr. UNTERMYER. How long have you been a member of the New York Stock Exchange?

Mr. KEPPLER. Upward of 35 years.

Mr. UNTERMYER. How long have you been a member of the board of governors?

Mr. KEPPLER. Perhaps upward of 30 years.

Mr. UNTERMYER. You and Mr. Sturgis are the deans of the board, are you not?

Mr. KEPPLER. I did not so realize it until you put it that way.

Mr. UNTERMYER. That is the fact, is it not?

Mr. KEPPLER. I do not know.

Mr. UNTERMYER. Is the board of governors, as now constituted, largely composed of men who have been for many years acting in that capacity?

Mr. KEPPLER. Only in part. There are new members elected to the governing committee every year.

Mr. UNTERMYER. What is your firm?

Mr. KEPPLER. Rudolph Keppler & Co.

Mr. UNTERMYER. And what has been the particular character of your business? Has it been mostly investment business?

Mr. KEPPLER. Not mostly.

Mr. UNTERMYER. Has it been mostly stock business or bond business?

Mr. KEPPLER. The ordinary stock business; stock exchange business, so called.

Mr. UNTERMYER. You are still active on the exchange?

Mr. KEPPLER. Personally not.

Mr. UNTERMYER. Did you take part in the formulating of the answers to questions to the Hughes Commission?

Mr. KEPPLER. I did, sir.

Mr. UNTERMYER. And they were formulated in the manner described by Mr. Sturgis, at a meeting of the governors, with their counsel present?

Mr. KEPPLER. Not at a meeting of the governors, but merely a meeting of the law committee, who represent the governors.

Mr. UNTERMYER. Yes. How long did you take to formulate these answers? You were some weeks in doing it?

Mr. KEPPLER. Oh, yes; I think so, altogether. There were successive series of questions put.

Mr. UNTERMYER. I am speaking of the first series.

Mr. KEPPLER. I could not say just how long that took. It took some time.

Mr. UNTERMYER. They were framed and reframed, were they, and polished up and put in shape finally?

Mr. KEPPLER. They were duly considered.

Mr. UNTERMYER. Did you have a great deal of trouble with answering this question about manipulation?

Mr. KEPPLER. I do not know that we had any trouble with it.

Mr. UNTERMYER. You do not think you had any trouble answering it?

Mr. KEPPLER. Well, not more than with any other question.

Mr. UNTERMYER. You think not?

Mr. KEPPLER. I do not know that it gave us any special trouble.

Mr. UNTERMYER. Do you approve of the statement on that subject as made in the answer?

Mr. KEPPLER. I approve of the answer that was made.

Mr. UNTERMYER. You do? You signed it, did you not?

Mr. KEPPLER. I did.

Mr. UNTERMYER. All the members of the governing committee were unanimous in these answers, were they?

Mr. KEPPLER. All the members of the committee who had that duty put upon them.

Mr. UNTERMYER. It was signed by the law committee only, was it?

Mr. KEPPLER. Yes.

Mr. UNTERMYER. How many members has the law committee?

Mr. KEPPLER. Five.

Mr. UNTERMYER. And they were all of the same opinion as to these answers?

Mr. KEPPLER. Apparently so. They all signed the answers.

Mr. UNTERMYER. I will read this answer to you, also, as I read it to Mr. Sturgis:

There is a class of business, however, which is legitimate upon the exchange, and may be described briefly as follows: If a member in good faith gives to a broker an order to buy a certain amount of stock, and the said member gives to another broker in equally good faith, and with no collusion between the two parties, an order to sell a certain amount of the same stock, and those two orders are executed upon the floor of the exchange, a commission paid, and every requirement of the law met, such a transaction is not illegitimate.

Do you approve of that?

Mr. KEPPLER. I do.

Mr. UNTERMYER. What is the purpose of a member giving, in good faith, to a member an order to buy, we will say, 1,000 shares of stock and at the same time an order to sell 1,000 shares of the same stock?

Mr. KEPPLER. I really can not answer what may be in the mind of another person.

Mr. UNTERMYER. What could be his purpose?

Mr. KEPPLER. What could be his purpose?

Mr. UNTERMYER. Yes.

Mr. KEPPLER. Well, he might have to transfer some stock from one account to another.

Mr. UNTERMYER. Why can he not do that without selling it and buying it on the exchange.

Mr. KEPPLER. That is what you are asking me. By giving orders on the exchange.

Mr. UNTERMYER. Why can he not do that, if he wants to transfer 1,000 shares from one account to another, without any transaction on the exchange?

Mr. KEPPLER. I believe it has been held illegal to do that.

Mr. UNTERMYER. You mean for a man to transfer?

Mr. KEPPLER. For a matter of record, if a broker sells for one party and buys for another.

Mr. UNTERMYER. No; I do not think I understand. What is the purpose of these transactions that are dealt in every day and all day, such as are described here in this answer? You know the purpose, Mr. Keppler, do you not?

Mr. KEPPLER. In the first place, I do not know that it is done every day.

Mr. UNTERMYER. Do you not know that stocks are manipulated every day, and many times in the day?

Mr. KEPPLER. I do not know anything about it, personally, myself.

Mr. UNTERMYER. But you have been 30 or 40 years on the exchange, and you must have some experience about it.

Mr. KEPPLER. I have never been engaged in what you have repeatedly described here as manipulation.

Mr. UNTERMYER. Is there manipulation?

Mr. KEPPLER. I assume that there is. I do not know.

Mr. UNTERMYER. And you think it is legitimate, do you not?

Mr. KEPPLER. If it is done honestly, simply buying and selling without any collusion, or without what may be called wash sales, or matched orders, I see no objection to it.

Mr. UNTERMYER. What is its purpose?

Mr. KEPPLER. I could not answer that.

Mr. UNTERMYER. Do you mean to say you can not tell us why manipulation is resorted to, of the character you have just described?

Mr. KEPPLER. I have no knowledge.

Mr. UNTERMYER. But, Mr. Keppler, you can give us the reasons, can you not?

Mr. KEPPLER. I can not. I should be very glad to do so if I could.

Mr. UNTERMYER. Is it not at times to get higher prices for securities?

Mr. KEPPLER. It might be.

Mr. UNTERMYER. And at times to get a lower level?

Mr. KEPPLER. It might be.

Mr. UNTERMYER. And is it not to make a security appear active?

Mr. KEPPLER. It might do that.

Mr. UNTERMYER. Those are the three things that it would do, or could do?

Mr. KEPPLER. It might have that effect, or would have that effect.

Mr. UNTERMYER. And those you think would be legitimate purposes?

Mr. KEPPLER. If done in the open market.

Mr. UNTERMYER. We are talking about things that are done in the open market, certainly. You consider that is legitimate?

Mr. KEPPLER. I do.

Mr. UNTERMYER. Why is it legitimate to make a stock appear active when it is not active?

Mr. KEPPLER. It may be that for a reason satisfactory to the party who gives the order he may wish to acquire stock in the market, which, in a dull and lifeless market, he can not do.

Mr. UNTERMYER. How does it help him to acquire stock in the market to be operating on both sides of the market, buying and selling at the same time?

Mr. KEPPLER. Because in making the market active it might, and possibly does attract other people who may be interested in the same stock.

Mr. UNTERMYER. Attract them to do what?

Mr. KEPPLER. To either buy or sell.

Mr. UNTERMYER. Then he is holding out a false sign, is he not?

Mr. KEPPLER. I do not consider that a false sign.

Mr. UNTERMYER. When he is buying and selling both at the same time, and making it appear that the stock is active when it is not active, in order to get it active and to induce people to come in and deal in it, is not that holding out a false sign?

Mr. KEPPLER. I would say no.

Mr. UNTERMYER. That is the only answer you want to make to that question?

Mr. KEPPLER. That is all I care to make to it.

Mr. UNTERMYER. If he resorts to this process of buying and selling at the same time in order to put the stock to a higher level of prices, to make it appear higher in the market, what is his purpose in doing that?

Mr. KEPPLER. I could not answer that question.

Mr. UNTERMYER. That is what is done; and you say it is legitimate, do you not?

Mr. KEPPLER. In a reasonable way, to a reasonable extent; yes.

Mr. UNTERMYER. When would you say it was reasonable to do that. and when would it be unreasonable? It would depend on the means of the man?

Mr. KEPPLER. To some extent.

Mr. UNTERMYER. It would depend on his financial responsibility?

Mr. KEPPLER. To some extent.

Mr. UNTERMYER. So that if he is a very rich man, it would be reasonable for him to manipulate the market up to higher prices to almost any extent, would it?

Mr. KEPPLER. That does not follow, in my opinion.

Mr. UNTERMYER. How far could he go if his means were limitless, and still be considered as reasonable?

Mr. KEPPLER. I could not draw the line. That would depend upon circumstances entirely.

Mr. UNTERMYER. If he was a poor man, then he ought not to do it at all?

Mr. KEPPLER. Quite so.

Mr. UNTERMYER. But where you draw the line you do not know?

Mr. KEPPLER. I could not draw the line.

Mr. UNTERMYER. You say you can not tell us what his purpose is?

Mr. KEPPLER. I can not.

Mr. UNTERMYER. He has to pay brokerage commissions of 25 cents a share, does he not?

Mr. KEPPLER. Whatever the outsider buys and sells he has to pay commisisons on.

Mr. UNTERMYER. But I mean the operator who gives these buying and selling orders in order to manipulate up to a higher price. He has to pay 25 cents a share on every share that is manipulated in that way, does he not?

Mr. KEPPLER. The operator has to pay on every share that he buys and sells.

Mr. UNTERMYER. Unless he is a member of the exchange?

Mr. KEPPLER. Whatever his purpose may be.

Mr. UNTERMYER. That is, if he is not a member of the exchange?

Mr. KEPPLER. If he is not a member of the exchange.

Mr. UNTERMYER. And if he is a member of the exchange, he can indulge in that pastime without expense?

Mr. KEPPLER. If he does it for himself, yes.

Mr. UNTERMYER. So that it is a much more expensive thing for the outside operator to manipulate on the stock market than it is for a member?

Mr. KEPPLER. Yes.

Mr. UNTERMYER. Let us take the other end of manipulation. Suppose it is a manipulation for a decline instead of a manipulation for a higher level. Suppose it is a manipulation to bring about a lower level of prices. Can you tell us what the purpose of that is?

Mr. KEPPLER. My answers would be the same as they are if the alleged purpose is for advancing the prices.

Mr. UNTERMYER. What do you mean by the "alleged purpose"? I have not alleged any purposes, have I? I have asked you to tell me the purposes.

Mr. KEPPLER. I can not tell them.

Mr. UNTERMYER. Do you not know that the purpose of a transaction of that kind, of manipulation for a decline, paying the commissions incident to it, is in order to bring about a lower level of prices, so as to either cover short sales or to buy stocks cheaper for a rise?

Mr. KEPPLER. I should assume that would be the object.

Mr. UNTERMYER. That is the only conceivable object that a stock-exchange man could see in it, is it not?

Mr. KEPPLER. Yes.

Mr. UNTERMYER. The same is true on the other end, of manipulating for a higher level, is it not? That is, is it not true that the purpose of that is, and it is the only conceivable object, to unload stocks that have been bought at a lower price?

Mr. KEPPLER. I can not change my position. I can not tell you what the purpose of another man is in buying and selling and giving orders to that effect.

Mr. UNTERMYER. But I am asking for what you, as a stock-exchange man, would regard as the reasonable purpose of paying commissions and conducting transactions of that kind. Would it not be in order to get a higher level of prices in which to unload stocks that have been acquired at a lower level?

Mr. KEPPLER. I can conceive of another purpose, and that is to create a higher level of prices for the particular security, and to maintain it there.

Mr. UNTERMYER. For whose benefit is the higher leved to be created; for the benefit of the public, to bring them in?

Mr. KEPPLER. Not necessarily.

Mr. UNTERMYER. But when you spend money in getting a higher level of prices, is it not in order to get people to buy stock at those prices?

Mr. KEPPLER. If you spend money for that purpose, it might be.

Mr. UNTERMYER. Do you not have to spend money, in order to bring it about, on a manipulative transaction such as we are discussing?

Mr. KEPPLER. Yes; you have to pay commissions.

Mr. UNTERMYER. You can not maintain the stock at the higher level unless people buy, can you?

Mr. KEPPLER. Why not?

Mr. UNTERMYER. Because, suppose people sell; suppose some sell; unless there are people there to buy, how can you maintain it at a higher level?

Mr. KEPPLER. I could not say what would happen if certain things take place. I can not answer for that. Suppose a man wants to sell. He may find a buyer, and he may not.

Mr. UNTERMYER. But you know that in order to maintain stock at this high level you have to have purchasers?

Mr. KEPPLER. I guess there are a great many stocks that maintain a level with very few transactions in the stocks.

Mr. UNTERMYER. But they are protected, are they not?

Mr. KEPPLER. Not so. Not necessarily so.

Mr. UNTERMYER. Then they are old and stable and inactive stocks?

Mr. KEPPLER. Not even that.

Mr. UNTERMYER. How do they stay there?

Mr. KEPPLER. Because there are very few dealings in the stock; or if the dealings do occur, they are practically on the same level.

Mr. UNTERMYER. You understand we are discussing manipulative transactions, do you not, Mr. Keppler; and you do not mean to say that any of these answers that you have made apply to such transactions?

Mr. KEPPLER. Not the last answers; no, sir.

Mr. UNTERMYER. Not the last few answers?

Mr. KEPPLER. No, sir.

Mr. UNTERMYER. Have you told us, in answer to my questions, all that you know about the general custom and effect of stock manipulation?

Mr. KEPPLER. I think I have.

Mr. UNTERMYER. There is nothing you desire to add, is there?

Mr. KEPPLER. Nothing.

Mr. UNTERMYER. Is the curb kept in the street by the act of the stock exchange?

Mr. KEPPLER. It is not.

Mr. UNTERMYER. Let us see if that is so. Do you not know that your rules prohibit your members from dealing on any other exchange that deals in securities in the city of New York?

Mr. KEPPLER. That deals in securities which are listed on the New York Stock Exchange?

Mr. UNTERMYER. No; that deals in any securities?

Mr. KEPPLER. Yes.

Mr. UNTERMYER. That is right; is it not?

Mr. KEPPLER. Yes.

Mr. UNTERMYER. So that if the curb were under a roof your members could not deal on it, could they? Let me call your attention, in that connection, to the Hughes report, because that, I think, sums it up. I call your attention to this statement on page 13 of the Hughes report——

Mr. KEPPLER. Will you pardon me for a moment?

Mr. UNTERMYER. Certainly.

Mr. KEPPLER. In regard to the statement made a moment ago in regard to dealings on other exchanges, if you will permit me, I would like to have this read out of the constitution of the exchange.

Mr. UNTERMYER (after examination of page 45 of constitution). I think this is already in the record in the case.

Mr. KEPPLER. It is different from what has been said just now.

Mr. UNTERMYER. That is not the only article bearing on the subject, is it?

Mr. KEPPLER. The one at the top of page 45, on dealings in other exchanges, is the one I refer to.

Mr. UNTERMYER. Yes.

Mr. KEPPLER. I stated that it applied to exchanges dealing in securities that are listed or quoted on the New York Stock Exchange.

Mr. UNTERMYER. Do you not know that you have some resolutions that have extended that?

Let me call your attention to the Hughes report, page 13.

Mr. KEPPLER. Yes.

Mr. UNTERMYER (reading):

The exchange itself keeps the curb market in the street, since it forbids its own members engaging in any transaction in any other security exchange in New York. If the curb were put under a roof and organized this trading could not be maintained.

Do you remember that?

Mr. KEPPLER. You are reading this from the report of the Hughes Commission?

Mr. UNTERMYER. Yes; from the report of the Hughes Commission. That was based on the data you furnished them?

Mr. KEPPLER. That is the conclusion of those gentlemen at that time.

Mr. UNTERMYER. Do you remember also this statement:

The stock exchange should compel the formulation and enforcement of such rules as may seem proper for the regulation of business on the curb, the conduct of those dealing thereon, and, particularly, for the admission of securities and quotations. If the curb brokers were notified that failure to comply with such requirements would be followed by an application of the rule of nonintercourse, there is little doubt that the orders of the exchange would be obeyed.

Do you remember that?

Mr. KEPPLER. I do.

Mr. UNTERMYER. Did you carry out that idea?

Mr. KEPPLER. We did not.

Mr. UNTERMYER. Did you not have some transactions or some conferences and negotiations with the curb?

Mr. KEPLER. We had not, sir. One man, who called himself, I think, the agent of the curb, appeared once, by his own request, before the law committee, and made some statements to the committee. It was in no sense a negotiation or conference.

Mr. UNTERMYER. What was the result of the conference or the meeting, or whatever you may choose to call it?

Mr. KEPPLER. That the stock exchange continued to maintain the position that it had always held, that it had no control, and desired no control, over the curb market.

Mr. UNTERMYER. Let me see about that. What is the commission that is paid on transactions on the curb?

Mr. KEPPLER. I believe that varies very much. I am not personally very familiar with it.

Mr. UNTERMYER. It is less than on the stock exchange, is it not?

Mr. KEPPLER. I take that for granted.

Mr. UNTERMYER. Is there any given security dealt in on the curb to-day that is listed or quoted on the New York Stock Exchange?

Mr. KEPPLER. I understand that there is not. I have no personal knowledge of it.

Mr. UNTERMYER. Do you not know there never has been?

Mr. KEPPLER. I think that is true.

Mr. UNTERMYER. What happens to a quotation or a security that has been dealt in on the curb when the stock exchange takes it on the list?

Mr. KEPPLER. That is impossible for me to say.

Mr. UNTERMYER. It disappears from the curb, does it not?

Mr. KEPPLER. Yes; it is supposed to.

Mr. UNTERMYER. And yet it is the fact, is it not, that it can be dealt in at a less rate of commission on the curb?

Mr. KEPPLER. It could have been before it was listed on the stock exchange.

Mr. UNTERMYER. Well, and after it is listed on the stock exchange, then why is it, since their rate of commissions is lower, that it does not appear on the curb any longer?

Mr. KEPPLER. That is for the curb man to answer. I could not tell you that.

Mr. UNTERMYER. Do you not know it is because the stock exchange has notified them that the stock exchange members will not be permitter to deal with the curb if the curb deals in stock exchange securities?

Mr. KEPPLER. I beg your bardon, Mr. Untermyer; the curb has never been notified, in any sense, on anything.

Mr. UNTERMYER. Never mind about officially, but is not that the fact? Is not that the reason?

Mr. KEPPLER. I believe it is inferred or believed by the members of the so-called curb that it would result that way.

Mr. UNTERMYER. Yes; and if they should undertake to deal in a security that was listed on the stock exchange the exchange members would not be permitted to deal with the curb? That is right?

Mr. KEPPLER. I think they would draw that conclusion.

Mr. UNTERMYER. You think they would draw a very wise and correct conclusion, do you not?

Mr. KEPPLER. Yes; I think so.

Mr. UNTERMYER. That is the reason your members can not deal with the members of the Consolidated Exchange, is it not?

Mr. KEPPLER. Yes.

Mr. UNTERMYER. The removal of these securities that have been dealt in on the curb to the stock exchange list, does that deprive the curb of a great deal of business?

Mr. KEPPLER. I can not answer. I do not know.

Mr. UNTERMYER. Do you not know anything about it?

Mr. KEPPLER. I do not know. I have never kept track of the transactions on the curb.

Mr. UNTERMYER. Do you not know that all the large issues of securities, bonds and stocks, are dealt in on the curb when they are issued, up to the time that they are ready for listing on the New York Stock Exchange?

Mr. KEPPLER. I should not say all. Some, but not by any means all securities that are listed on the exchange.

Mr. UNTERMYER. Well, all prominent issues.

Mr. KEPPLER. Well, I hardly think so. I do not think so.

Mr. UNTERMYER. Does your firm deal on the curb?

Mr. KEPPLER. No, sir.

Mr. UNTERMYER. Do not any of your members deal with curb brokers—buy securities on the curb?

Mr. KEPPLER. Any of our members; members of the exchange?

Mr. UNTERMYER. No; members of your firm?

Mr. KEPPLER. I think it is very rare.

Mr. UNTERMYER. Suppose you want to buy Standard Oil stock for a customer, where do you go?

Mr. KEPPLER. I say it is very rare. We have very little business of that kind.

Mr. UNTERMYER. That is not the question. Suppose you want to buy Standard Oil stock, where do you go to buy it?

Mr. KEPPLER. I suppose we would inquire of those who make a business of dealing in that stock.

Mr. UNTERMYER. Where is it listed?

Mr. KEPPLER. I do not know.

Mr. UNTERMYER. Is it not listed on the curb?

Mr. KEPPLER. I do not know.

Mr. UNTERMYER. Do you not know that all the Standard Oil stocks are listed only on the curb?

Mr. KEPPLER. I have absolutely no knowledge as to what is listed on the curb.

Mr. UNTERMYER. Do you read the newspapers?

Mr. KEPPLER. I do.

Mr. UNTERMYER. Do you ever read the quotations?

Mr. KEPPLER. Quotations where?

Mr. UNTERMYER. The stock quotations; the stock market quotations.

Mr. KEPPLER. As a general thing I do; yes, sir.

Mr. UNTERMYER. And you find in the papers a column devoted to outside securities that are dealt in on the curb?

Mr. KEPPLER. I very rarely give myself the entertainment of reading quotations for things in which I have no interest or of which I have no knowledge—in which my firm has no interest.

Mr. UNTERMYER. Then you do not take any interest in the general market quotations?

Mr. KEPPLER. I do; but not in the curb quotations.

Mr. UNTERMYER. Are not tobacco stocks important stocks?

Mr. KEPPLER. Tobacco stocks?

Mr. UNTERMYER. Yes; stocks of the Tobacco Co.?

Mr. KEPPLER. I think they are.

Mr. UNTERMYER. Are they not dealt in on the curb?

Mr. KEPPLER. I suppose they are. I do not know, sir.

Mr. UNTERMYER. The curb association has now formulated a set of by-laws and regulations, has it not?

Mr. KEPPLER. I am so informed.

Mr. UNTERMYER. As a member of the law committee, do you not know it?

Mr. KEPPLER. No, sir; the law committee has absolutely no knowledge of matters of that kind.

Mr. UNTERMYER. No; but personally—rather than officially—you have knowledge, have you not?

Mr. KEPPLER. Only by seeing reference to it in the newspapers.

Mr. UNTERMYER. Have you read them? Have you read the regulations of the curb?

Mr. KEPPLER. No, sir.

Mr. UNTERMYER. Is there anybody on the stock exchange who has charge of that subject?

Mr. KEPPLER. No committee of the stock exchange, sir, has charge of that subject.

Mr. UNTERMYER. Suppose an operator wants to form a pool or a syndicate to operate in a given stock so as to make profits for himself and his associates out of it. How does he go about it?

Mr. KEPPLER. Well, I must ask you to excuse me from answering questions along that line. I can not say. It may seem very strange to you that, in an experience of 30 or 40 years in Wall Street, I can not answer these questions directly; but I never have had anything to do with that kind of business or with pools of any sort. I have no knowledge.

Mr. UNTERMYER. Do you not recognize that you are a very shining exception?

Mr. KEPPLER. I do not flatter myself in any way as being shining or otherwise.

Mr. UNTERMYER. But you have been down in the Street, and have known of these pools all around you, have you not?

Mr. KEPPLER. I have heard of them; yes, sir.

Mr. UNTERMYER. And you have seen the effects of their operations in the stock market, have you not—of the vast dealings in a given stock?

Mr. KEPPLER. I like to be very exact in my answers. I may have an impression at a given time that my attention is called to a certain important change in a price, but I have no knowledge. I can not tell you. I do not know how it was done—how it was brought about—and it is merely hearsay or gossip.

Mr. UNTERMYER. You mean that you have never represented one of these pools on the stock market?

Mr. KEPPLER. I have never been interested directly or indirectly in anything of the kind.

Mr. UNTERMYER. How long is it since you have been especially active on the stock market?

Mr. KEPPLER. Thirty-odd years.

Mr. UNTERMYER. No; but how long is it since you have been active?

Mr. KEPPLER. I do not believe that I have been on the floor of the stock exchange for two years or more.

Mr. UNTERMYER. Prior to that were you active?

Mr. KEPPLER. Quite familiar and active; not active in the modern sense of the term.

Mr. UNTERMYER. You mean not active in the sense of buying and selling?

Mr. KEPPLER. Not in the sense of dealing.

Mr. UNTERMYER. Not in the modern swim—is that what you mean—of stock brokerage business?

Mr. KEPPLER. The present idea of large business seems to be somewhat different from what it was 10, 20, or 30 years ago.

Mr. UNTERMYER. Are you competent to speak with respect to the operations of the stock exchange clearing house, or is there somebody here who is better able to do that?

Mr. KEPPLER. Only in a general way. We have brought Mr. Streit, who is on the clearing house committee, who can give you every phase of that operation.

Mr. UNTERMYER. Do you agree with that statement of the Hughes report that a substantial part of the transactions on the exchange are gambling? I will read it to you, so that we will not have any question about it. It reads as follows:

> It is unquestionable that only a small part of the transactions upon the exchange are of an investment character. A substantial part would be characterized as virtually gambling.

Do you agree with that conclusion?

Mr. KEPPLER. I should have to ask what they meant by a substantial part; what percentage that might be?

Mr. UNTERMYER. You would not have any idea about it?

Mr. KEPPLER. I would not deny that some transactions in stocks are of a somewhat gambling nature. That is as far as I would go.

Mr. UNTERMYER. Should you say that 80 per cent of the dealings on the stock exchange were plain gambling?

Mr. KEPPLER. Oh, I could not begin to answer that question.

Mr. UNTERMYER. That is all, Mr. Keppler. I think I have asked you everything. Would you like to say something?

Mr. KEPPLER. No, sir.

Witness excused.

At 1 o'clock p. m. the committee took a recess until 2 o'clock p. m.

AFTER RECESS.

The committee met pursuant to the taking of the recess.

TESTIMONY OF MR. SAMUEL F. STREIT.

The witness was sworn by the chairman.

Mr. UNTERMYER. Where do you reside?

Mr. STREIT. City of New York.

Mr. UNTERMYER. What is your occupation?

Mr. STREET. Member of the New York Stock Exchange; banker and broker.

Mr. UNTERMYER. What is your firm?

Mr. STREIT. H. T. Carey & Co.

Mr. UNTERMYER. How long have you been a member of the New York Stock Exchange?

Mr. STREIT. Since April 5, 1899.

Mr. UNTERMYER. Are you a member of the board of governors?

Mr. STREIT. I am.

Mr. UNTERMYER. Are you a member of any committee of the board?

Mr. STREIT. I am.

Mr. UNTERMYER. Of what committee?

Mr. STREIT. Of the committee on arbitration and the committee on clearing house.

Mr. UNTERMYER. When was the committee on clearing house established?

Mr. STREIT. Approximately 1892, in May, when the clearing house was established.

Mr. UNTERMYER. Has the stock exchange clearing house been in existence since 1892?

Mr. STREIT. It had its twentieth anniversary in May of this year.

Mr. UNTERMYER. Please explain, if you will, the character of business at the clearing house and the way in which operations are conducted there

Mr. STREIT. In the first place, I would read the constitution.

Mr. UNTERMYER. Oh, my!

Mr. STREIT. Just in regard to the clearing house, in which its status is explained:

[Art. 27, sec. 1, of the constitution.]

There shall be a clearing house for the purpose of acting as a common agent of the members of the exchange in receiving and delivering such securities as may from time to time be designated by the clearing-house committee.

Mr. UNTERMYER. I thought you were threatening to read the whole constitution.

Mr. STREIT. Oh, no, indeed.

Mr. UNTERMYER. Go on, if you will, and explain the constitution and the working of the clearing house.

Mr. STREIT. May I read from this memorandum, which is very much more definite?

Mr. UNTERMYER. Yes; if it is concise and not too long.

Mr. STREIT. Each individual or firm, members of the New York Stock Exchange in good standing, having adequate facilities for transacting their business, is entitled to the privilege of the clearing house after making a written application addressed to the chairman of the clearing-house committee, which must be approved by that committee. The clearing house acts as agent for its members in the settlement of all contracts in those stocks designated by the clearing-house committee to be cleared, known as clearing-house stocks. The clearing house, in acting as agent for its members, is not only a labor-saving device by which a large proportion of the work of the office is done, but through its receipt of a statement each business day—except Friday, unless the Saturday following becomes a holiday, when sheets will be presented on Friday—of all the transactions in cleared stocks to be received or delivered the next delivery day—all days except Saturdays, Sundays, and holidays—which is thoroughly examined in every respect as to its accuracy and checked with the orders a clearing-house ticket (exchange ticket) on which it accepts delivery, and which should be issued for each transaction and exchanged between contracting parties, showing that they are correctly entered on the sheet, and if not, making the entry in accordance with the orders issued to the clearing house. It acts as auditing department for the members of the stock exchange in their transactions.

Mr. UNTERMYER. By way of practical illustration, suppose a brokerage house has bought during the day 10,000 shares of Union Pacific and has sold 8,000 shares of Union Pacific, how many shares are delivered at the clearing house?

Mr. STREIT. Actual stocks?

Mr. UNTERMYER. Yes.

Mr. STREIT. It does not deliver any actual stocks to the clearing house.

Mr. UNTERMYER. It gets 2,000 shares?

Mr. STREIT. Not from the clearing house.

Mr. UNTERMYER. What does it get from the clearing house?

Mr. STREIT. It gets from the clearing house an order to deliver 2,000 shares to the other brokers named by the clearing house who are entitled to receive that 2,000 shares. If I may give a concrete illustration——

Mr. UNTERMYER. Yes.

Mr. STREIT. If A sells 100 shares of stock to B, and B sells 100 shares of stock to C, A sends to B a ticket or memorandum stating that he owes B 100 shares of stock. That ticket goes to the clearing house. B sends to C a ticket or due bill (or whatever word you want to use; it is a ticket, as we call it) showing that he is entitled to deliver to C and owes to C 100 shares of stock. Through the operations of the clearing house simplified, they give an order to A to deliver the stock to C.

Mr. UNTERMYER. I understand that.

Mr. STREIT. That is all.

Mr. UNTERMYER. That is not the transaction about which I am inquiring.

Mr. STREIT. I misunderstood you.

Mr. UNTERMYER. If it appears from the sheet delivered by broker A that he has sold 8,000 shares of a given stock and has bought 10,000 shares of a given stock, for what amount of stock does he get a ticket?

Mr. STREIT. He gives a ticket, and receives a ticket, for the total amount, and receives an order from the clearing house——

Mr. UNTERMYER. For 2,000 shares?

Mr. STREIT. To receive 2,000 shares from the party mentioned and stated by the clearing house.

Mr. UNTERMYER. A does not present the certificates for the 8,000 shares he has sold, does he?

Mr. STREIT. He does not present the actual certificates.

Mr. UNTERMYER. Nobody presents any certificates to the clearing house, do they?

Mr. STREIT. Not to the clearing house itself; no, sir.

Mr. UNTERMYER. That is all left to be adjusted between the brokers who hold these various slips?

Mr. STREIT. On the orders from the clearing house; yes, sir.

Mr. UNTERMYER. On those slips?

Mr. STREIT. Yes, sir.

Mr. UNTERMYER. If A, having sold 8,000 shares and having bought 10,000 shares, were required to present the certificates for his 8,000 shares at the clearing house, or the numbers of those certificates, if you please, and to get the 10,000 shares that he bought——

Mr. STREIT. Pardon me for interrupting you——

Mr. UNTERMYER (continuing). If he were required to present the 8,000 shares sold, that would reduce the speculation very much, would it not?

Mr. STREIT. I am not prepared to say.

Mr. UNTERMYER. Can you not see it would?

Mr. STREIT. Anything that increases the facilities of the exchange may be conducive to speculation, but the clearing house is simply——

Mr. UNTERMYER (interrupting). I do not want to have a general discussion of the subject, and I have not asked for it. You understand that, do you not?

Mr. STREIT. I do now, that you say so.

Mr. UNTERMYER. Do you not understand that if every broker who sold stock were required to deliver his stock at the clearing house, or the certificates for it, it would materially lessen speculation?

Mr. STREIT. I do not know that.

Mr. UNTERMYER. You do not think so?

Mr. STREIT. I do not know that.

Mr. UNTERMYER. What is your opinion?

Mr. STREIT. My opinion is that the clearing house makes it easier to transact the business in stocks.

Mr. UNTERMYER. The question will be repeated to you.

Upon request the stenographer repeated the pending question, as follows:

Do you not understand that if every broker who sold stock were required to deliver his stock at the clearing house, or the certificates for it, it would materially lessen stock speculation?

Mr. STREIT. I do not know that.

Mr. UNTERMYER. What is your opinion?

Mr. STREIT. I have not any opinion.

Mr. UNTERMYER. How long have you been a broker?

Mr. STREIT. Since 1899; about 14 years.

Mr. UNTERMYER. Do you not know that short selling would be very much curtailed if the broker had to deliver the numbers of the certificates sold?

Mr. STREIT. I do not know that.

Mr. UNTERMYER. What is your opinion?

Mr. STREIT. I have not any opinion on it.

Mr. UNTERMYER. You can not grasp the situation, or you do not want to, or what is the idea about it, that you have no opinion on such a proposition?

Mr. STREIT. Because a great many different things might enter into it—other methods that would make it easier or more difficult.

Mr. UNTERMYER. We are not speaking of any other method than the simple fact of the broker presenting his certificates at the stock exchange clearing house and showing that he is dealing in actual stock, and if he has sold the stock for a customer or for himself that he did not own, his being required to go and buy the stock. Do you not know that would reduce speculation and speculative transactions?

Mr. STREIT. That has nothing to do with the clearing house.

Mr. UNTERMYER. I did not ask you that. Do you not know if that were required to be done it would reduce speculative transactions?

Mr. STREIT. I do not know that.

Mr. UNTERMYER. You have no opinion on the subject?

Mr. STREIT. I do not know that.

Mr. UNTERMYER. You have no opinion on the subject?

Mr. STREIT. No.

Mr. UNTERMYER. Do you consider short selling legitimate?

Mr. STREIT. I do not think about it one way or the other?
Mr. UNTERMYER. You never thought about it?
Mr. STREIT. I have thought of it.
Mr. UNTERMYER. You have never reached a conclusion?
Mr. STREIT. No.
Mr. UNTERMYER. You never reached a conclusion?
Mr. STREIT. No.
Mr. UNTERMYER. You know what it is, do you not?
Mr. STREIT. Yes.
Mr. UNTERMYER. Your customers know what it is, do they not?
Mr. STREIT. I presume so; some of them.
Mr. UNTERMYER. You have done it for them, have you not?
Mr. STREIT. Yes.
Mr. UNTERMYER. And for yourself?
Mr. STREIT. No.
Mr. UNTERMYER. Only for other people?
Mr. STREIT. Only for other people.
Mr. UNTERMYER. But you have not made up your mind as to its moral slant, then?
Mr. STREIT. Yes.
Mr. UNTERMYER. You have?
Mr. STREIT. I have.
Mr. UNTERMYER. Then do you think it is legitimate?
Mr. STREIT. I think it is legitimate.
Mr. UNTERMYER. Then you have reached a conclusion since you have been testifying?
Mr. STREIT. I think I misunderstood the question. That is my answer; I think it is legitimate.
Mr. UNTERMYER. What is the purpose of short selling?
Mr. STREIT. Different purposes with different people. I can not read their minds.
Mr. UNTERMYER. Not their minds; why should any man want to sell short?
Mr. STREIT. I am not prepared to answer that question.
Mr. UNTERMYER. Might I suggest that the general reason would be in order to buy the stock that he had sold and did not have, at a lower level of prices?
Mr. STREIT. You might.
Mr. UNTERMYER. That is right, is it not?
Mr. STREIT. Presumably. The gentlemen on the stand previous to me have had various operations in which short selling is necessary. There are so many different kinds I have nothing to say on it. Those gentlemen referred to transactions where they were buying against stock that was to arrive.
Mr. UNTERMYER. You know that the occasion when short selling is done against stock that is to arrive is not what is called short selling, do you not?
Mr. STREIT. The effect is the same.
Mr. UNTERMYER. I did not ask that. It is not what we know as short selling, when a man goes in and is selling something that he has, but that has not yet been delivered; that is not known as short selling, is it?
Mr. STREIT. It is technically known as short selling against long stock.

Mr. UNTERMYER. That is a different transaction; short selling against long stock?

Mr. STREIT. It might be.

Mr. UNTERMYER. It is, is it not?

Mr. STREIT. It is if the circumstances are absolutely known.

Mr. UNTERMYER. Are there not two different transactions, one known as short selling, when the man who sells has not got the stock, and the other known as short selling against long stock, when a man sells the stock and has it?

Mr. STREIT. Yes.

Mr. UNTERMYER. We are talking about short selling, and my question was directed to ascertaining what can be the reason for short selling.

Mr. STREIT. I do not consider that is germane to the clearing house.

Mr. UNTERMYER. Did you understand you were only called as to the clearing house?

Mr. STREIT. I so understood; yes, sir; purely for that. I understood you asked for a clearing-house official.

Mr. UNTERMYER. You would rather not be examined on the general subject?

Mr. STREIT. I would rather not.

Mr. UNTERMYER. You have been listening here for two days, have you not?

Mr. STREIT. Yes, sir.

Mr. UNTERMYER. You have heard questions put to Mr. Sturgis and Mr. Keppler, and you have had some ideas formed on this question, have you not?

Mr. STREIT. Sometimes I did and sometimes I did not. It was a matter I was not interested in as regards myself.

Mr. UNTERMYER. And you were not paying any attention to it?

Mr. STREIT. I will not say that.

Mr. UNTERMYER. I think that is all, Mr. Streit, since you would rather not be examined.

Witness excused.

TESTIMONY OF HARRY CONTENT.

The witness was sworn by the chairman.

Mr. UNTERMYER. Where do you reside?

Mr. CONTENT. New York City.

Mr. UNTERMYER. What is your business?

Mr. CONTENT. Stock broker.

Mr. UNTERMYER. What is your firm?

Mr. CONTENT. H. Content & Co.

Mr. UNTERMYER. How long have you been a member of the New York Stock Exchange?

Mr. CONTENT. Since 1885.

Mr. UNTERMYER. You are a very active broker. are you not?

Mr. CONTENT. Sometimes.

Mr. UNTERMYER. Your firm is one of the most active in the business on the stock exchange, is it not?

Mr. CONTENT. At times.

Mr. UNTERMYER. You are familiar with the business on the floor?

Mr. CONTENT. I am.

Mr. UNTERMYER. Do you know what is meant by manipulation of stocks?

Mr. CONTENT. I know how the term is used.

Mr. UNTERMYER. You know how the thing is done, do you not?

Mr. CONTENT. I may guess a lot.

Mr. UNTERMYER. No; I would not like to have you guess. I would like to have you tell the committee if you do not know how it is done.

Mr. CONTENT. No; I can not say how it is done. Every case is different.

Mr. UNTERMYER. It is done differently in different cases?

Mr. CONTENT. Every one. I do not know of two similar ones.

Mr. UNTERMYER. How many kinds of manipulation are you able to describe to the committee?

Mr. CONTENT. I can not describe any from my own personal knowledge.

Mr. UNTERMYER. How many forms of it are there?

Mr. CONTENT. Innumerable, I suppose.

Mr. UNTERMYER. But all on one general principle, are they not?

Mr. CONTENT. No.

Mr. UNTERMYER. How many principles are there in manipulation?

Mr. CONTENT. A great many.

Mr. UNTERMYER. Just tell us a few of them. Is one of them the principle of higher level of prices?

Mr. CONTENT. And higher level of dividends.

Mr. UNTERMYER. And another principle is lower level of prices?

Mr. CONTENT. With lower level of dividends or bad earnings. You will find, if I may tell you, that to-day and for a great many years the prices are reached in the stock exchange by supply and demand, and manipulation is exaggerated.

Mr. UNTERMYER. You will have to excuse me, but we are very much pressed for time and we do not want any general dissertation. We simply want the principles of manipulation.

You say manipulation is for a higher or a lower level of prices?

Mr. CONTENT. Yes, sir.

Mr. UNTERMYER. You say it is for a higher level of prices with increased dividends?

Mr. CONTENT. Or with reduced dividends.

Mr. UNTERMYER. Is it not frequently for a higher level when there are no increased dividends?

Mr. CONTENT. No; I do not think so.

Mr. UNTERMYER. You do not think nondividend stock is manipulated, like Rock Island or Reading?

Mr. CONTENT. Very little, if any. There is not any at the present time.

Mr. UNTERMYER. I do not mean a manipulation that took place yesterday.

Mr. CONTENT. Oh!

Mr. UNTERMYER. I am speaking of the general operations of the business.

Mr. CONTENT. I think it has been manipulated.

Mr. UNTERMYER. It is manipulated from time to time?

Mr. CONTENT. It has been; yes, sir.

Mr. UNTERMYER. Are not stocks manipulated regardless of whether they are dividend-paying stocks or not dividend-paying stocks?

Mr. CONTENT. No; I do not think so.

Mr. UNTERMYER. Have not the nondividend-paying stocks been manipulated quite as frequently as the dividend-paying stocks?

Mr. CONTENT. I do not think they have.

Mr. UNTERMYER. To what greater extent should you say that dividend-paying stocks are manipulated on the exchange than nondividend-paying stocks?

Mr. CONTENT. The percentage I could not give you. That is impossible.

Mr. UNTERMYER. But you think it is greater in respect to dividend-paying stocks?

Mr. CONTENT. I think it works up and down.

Mr. UNTERMYER. Do you not know that a prolific source of speculation is on nondividend-paying stocks on rumors of coming dividends?

Mr. CONTENT. Yes.

Mr. UNTERMYER. Is it on rumors of dividends that do come?

Mr. CONTENT. Probably.

Mr. UNTERMYER. Sometimes they do not materialize?

Mr. CONTENT. That happens.

Mr. UNTERMYER. Do you know whether or not manipulation of stocks by the insiders is made at times on the rumors of dividends that do not come?

Mr. CONTENT. I have heard of it. I do not know it.

Mr. UNTERMYER. Have you not conducted a number of these manipulations at different times in the past?

Mr. CONTENT. I have not.

Mr. UNTERMYER. What?

Mr. CONTENT. I have not.

Mr. UNTERMYER. You give out orders, do you not, on the exchange?

Mr. CONTENT. No.

Mr. UNTERMYER. You want the committee to understand that you personally have never been engaged in giving buying and selling orders?

Mr. CONTENT. No; I do not.

Mr. UNTERMYER. You do not want them to understand that, do you?

Mr. CONTENT. No; I have given orders to buy and sell stock—only when I have had orders.

Mr. UNTERMYER. Yes; I understand that. You mean you do not do it on your own account?

Mr. CONTENT. I trade on my own account at times.

Mr. UNTERMYER. You manipulate on your own account at times do you not?

Mr. CONTENT. No; I do not manipulate, because I have no object in it.

Mr. UNTERMYER. Is there not an object in manipulating; for instance, if you want to depress a stock, selling more than you buy?

Mr. CONTENT. I do not understand that?

Mr. UNTERMYER. Is there not money to be made, and is not money made, on the exchange by members by manipulating a given stock to a lower level or a higher level?

Mr. CONTENT. Well, I do not think so. Wait a minute; let me have that question.

The question was read by the stenographer.

Mr. CONTENT. Does that mean for themselves?

Mr. UNTERMYER. Sometimes.

Mr. CONTENT. I do not think so.

Mr. UNTERMYER. Only for customers?

Mr. CONTENT. I think so.

Mr. UNTERMYER. Did you hear Mr. Sturgis testify this morning on the witness stand?

Mr. CONTENT. Yes.

Mr. UNTERMYER. Did you hear him say that a very large proportion of the dealings of that kind were by the members themselves?

Mr. CONTENT. I heard him say that a large part of the dealings were for members, but not manipulations.

Mr. UNTERMYER. No; but did you not hear him say that a large part of the manipulated dealings were for themselves?

Mr. CONTENT. No, sir; I did not.

Mr. UNTERMYER. Did you not hear him say that it was easier for them to do it, because they did not have to pay commissions?

Mr. CONTENT. Easier for them to trade, but that is not manipulation.

Mr. UNTERMYER. I want to know if you did not hear him say that it was easier for them to manipulate the stocks?

Mr. CONTENT. No, sir; I did not.

Mr. UNTERMYER. You heard him testify?

Mr. CONTENT. Yes.

Mr. UNTERMYER. Please go on and tell the committee how you trade in a stock , when you are given, by an operator, orders to buy and sell that stock, either to get a higher level or a lower one. Take first the case of an order to trade in stock to put up the price. How would you go about it?

Mr. CONTENT. I do not know that I ever had an order——

Mr. UNTERMYER. What do you do?

Mr. CONTENT. I do not know that I ever had an order of that kind.

Mr. UNTERMYER. You never had an order to put stock up to a higher level?

Mr. CONTENT. To manipulate it? You said manipulate it to a higher level.

Mr. UNTERMYER. You never had an order, did you, to put a stock to a higher level, through buying and selling orders in that stock?

Mr. CONTENT. No; I do not think I ever did. I have had orders to buy a stock to a price, not knowing who I was going to get it from, but your term " manipulation " does not meet with my idea of that.

Mr. UNTERMYER. Have you had orders at the same time to sell the stock from the same person?

Mr. CONTENT. I have had orders to sell—from the same person?

Mr. UNTERMYER. Yes; certainly. At the same time. To distribute orders to buy and sell stock; to deal in it in that way?

Mr. CONTENT. Not to any extent; no, sir.

Mr. UNTERMYER. The question did not call for the extent.

Mr. CONTENT. I did not mean that. What I mean is this——

Mr. UNTERMYER. You mean, not very many transactions?

Mr. CONTENT. No; not so many.

Mr. UNTERMYER. Let us take any of the transactions you have had.

Mr. CONTENT. If you can just tell me what you mean by manipulation orders, I can testify better.

Mr. UNTERMYER. You do not know what that means?

Mr. CONTENT. No, sir; I think some of the answers were not just what I would have given. If you will divide for me what you mean by manipulation orders, if you will divide those two questions, I can answer.

Mr. UNTERMYER. I will divide it for you.

Mr. CONTENT. All right.

Mr. UNTERMYER. Suppose an operator wants to depress the market in the stock, what does he do?

Mr. CONTENT. He gives out selling orders.

Mr. UNTERMYER. He sells it short, does he not?

Mr. CONTENT. He may have it, and may want to buy more stock.

Mr. UNTERMYER. If he has not got it, what does he do?

Mr. CONTENT. He sells it short.

Mr. UNTERMYER. He does that for the purpose of getting a lower level of prices?

Mr. CONTENT. Yes.

Mr. UNTERMYER. And when the stock has gone down far enough, what does he do? He buys it in again?

Mr. CONTENT. Buys it in again if he wants it. Sometimes he sells more.

Mr. UNTERMYER. Sometimes he sells more, to depress it further?

Mr. CONTENT. Yes, sir.

Mr. UNTERMYER. And he keeps on selling it until he thinks it is down as far as it will go; is that right?

Mr. CONTENT. Yes.

Mr. UNTERMYER. And then he covers, does he not?

Mr. CONTENT. Sometimes. Sometimes he does not.

Mr. UNTERMYER. Does he ever cover?

Mr. CONTENT. Oh, yes.

Mr. UNTERMYER. He has got to cover, has he not?

Mr. CONTENT. Yes; but not always at a profit.

Mr. UNTERMYER. I did not ask you that.

Mr. CONTENT. Oh, yes; you said when it gets to the bottom he covers.

Mr. UNTERMYER. He covers sometime, does he not?

Mr. CONTENT. Yes; he covers at sometime.

Mr. UNTERMYER. That you consider perfectly legitimate?

Mr. CONTENT. I do.

Mr. UNTERMYER. It makes plenty of commissions, does it not?

Mr. CONTENT. Well, it makes just as many buying.

Mr. UNTERMYER. You think that the selling of a security that a man has not got, for the purpose of depressing the market so that he can make a profit out of buying it at a lower level, is legitimate?

Mr. CONTENT. I take exception to that. A man does not always sell to depress the market.

Mr. UNTERMYER. I am speaking of the people who sell short.

Mr. CONTENT. Yes; all right.

Mr. UNTERMYER. Do they not sell for that purpose?

Mr. CONTENT. Merchants sell short, very often.

Mr. UNTERMYER. Does not the man who sells short do so to depress the market?

Mr. CONTENT. He expects to buy cheaper.

Mr. UNTERMYER. Does he not do so in order to depress the market so that he can buy cheaper?

Mr. CONTENT. He tries to depress the market. but he does not always do it.

Mr. UNTERMYER. That is what I say. His purpose is to depress the market, is it?

Mr. CONTENT. I do not think his purpose is always to depress the market.

Mr. UNTERMYER. When he sells short, what can be his purpose except to depress the market in order to get the stock back cheaper?

Mr. CONTENT. He may think it is going down.

Mr. UNTERMYER. Yes; and he likes to join in while it is going down?

Mr. CONTENT. Yes; he likes to join in. But that does not say that he depresses the market.

Mr. UNTERMYER. You consider that perfectly legitimate?

Mr. CONTENT. I do.

Mr. UNTERMYER. Let me come back to the question of manipulation. Suppose an operator or a pool has got stock on hand, you understand——

Mr. CONTENT. Yes.

Mr. UNTERMYER. As I believe the brokers call it, accumulated stock.

Mr. CONTENT. Yes.

Mr. UNTERMYER. Is that the word?

Mr. CONTENT. Well, I would not use it.

Mr. UNTERMYER. Is that the word?

Mr. CONTENT. You mean that a pool has accumulated stock?

Mr. UNTERMYER. Yes.

Mr. CONTENT. I suppose so.

Mr. UNTERMYER. Do you not know so, Mr. Content? [After a pause.] Why do you not answer?

Mr. CONTENT. No; I would not say it is accumulated stock.

Mr. UNTERMYER. You never heard of a pool accumulating stock?

Mr. CONTENT. Not very often.

Mr. UNTERMYER. What?

Mr. CONTENT. Not very often have I heard the words "accumulated stock."

Mr. UNTERMYER. You never heard that a pool was accumulating stock?

Mr. CONTENT. Oh, yes. I thought you said "accumulated."

Mr. UNTERMYER. Did you really think so?

Mr. CONTENT. Yes.

Mr. UNTERMYER. The accumulation of stock by a pool is a very common thing, is it not?

Mr. CONTENT. Yes.

Mr. UNTERMYER. It is easier to accumulate it than to get rid of it? [After a pause.] You may answer.

Mr. CONTENT. I do not know. I can not answer.

Mr. UNTERMYER. What is your experience?

Mr. CONTENT. My experience is that pools have got rid of their stocks very well, at times. I have heard of it. I have never been in one.

Mr. UNTERMYER. But you have sold for them, have you not?

Mr. CONTENT. I have sold when I had orders; I do not know whether it was——

Mr. UNTERMYER. You have sold and bought for them, have you not?

Mr. CONTENT. No; not for a pool. I have sold for individual firms; I do not know whether it was pool stock or whose it was.

Mr. UNTERMYER. You have never heard of any such thing as a pool in Wall Street, have you?

Mr. CONTENT. Yes; I have heard of a pool.

Mr. UNTERMYER. You have never acted for a pool, have you?

Mr. CONTENT. No.

Mr. UNTERMYER. What was it when you acted for it?

Mr. CONTENT. I have acted for some individual or firm.

Mr. UNTERMYER. Who was operating for the pool?

Mr. CONTENT. Or for some house.

Mr. UNTERMYER. Some house that was managing a pool?

Mr. CONTENT. Yes.

Mr. UNTERMYER. That is the way it is done?

Mr. CONTENT. That is the way it is done.

Mr. UNTERMYER. The brokerage house gets together a pool, and it is given to some one house or to some one man to manage?

Mr. CONTENT. Yes.

Mr. UNTERMYER. And he buys and sells for the pool?

Mr. CONTENT. Yes.

Mr. UNTERMYER. On account of the pool?

Mr. CONTENT. Yes.

Mr. UNTERMYER. Is that often done in order to make a stock active?

Mr. CONTENT. It is not done now as much as it used to be. It is done very little now.

Mr. UNTERMYER. You mean not yesterday?

Mr. CONTENT. I mean in the last two years.

Mr. UNTERMYER. You mean there is no money in it?

Mr. CONTENT. There is no money in it.

Mr. UNTERMYER. Why is that?

Mr. CONTENT. It used to be the old-fashioned idea, to get a pool.

Mr. UNTERMYER. What is the modern way of doing it?

Mr. CONTENT. Of everybody for themselves.

Mr. UNTERMYER. Each man a pool in himself?

Mr. CONTENT. Each man a pool in himself.

Mr. UNTERMYER. You mean there are a number of big operators now?

Mr. CONTENT. There are a number of big operators to-day. They do not get together.

Mr. UNTERMYER. You mean that nowadays the big operators undertake this operation that was usually formerly undertaken by a pool?

Mr. CONTENT. Yes.

Mr. UNTERMYER. Does one of these big operators associate other people with him?

Mr. CONTENT. Not very often.

Mr. UNTERMYER. What has led to the change?

Mr. CONTENT. I do not know.

Mr. UNTERMYER. Do you think it is because they find it is safer not to trust others?

Mr. CONTENT. Not to have partners.

Mr. UNTERMYER. Safer not to trust the information to any associates, is that it?

Mr. CONTENT. Yes; I think so.

Mr. UNTERMYER. That has been the result of bitter experience, has it not?

Mr. CONTENT. I think so.

Mr. UNTERMYER. Is that because a good many partners in the old pools used to sell each other out?

Mr. CONTENT. Yes; that is where the short selling came in.

Mr. UNTERMYER. That is where a good deal of short selling came in, is it?

Mr. CONTENT. Yes.

Mr. UNTERMYER. Does it often happen that a banking house or brokerage house—a banking house in charge of a stock, a new security—wants to make it active?

Mr. CONTENT. Yes.

Mr. UNTERMYER. That is, the stock is listed on the exchange, and then what happens?

Mr. CONTENT. Sometimes it is active, and sometimes it is active at first. It varies.

Mr. UNTERMYER. How is it made active—a new security, for instance?

Mr. CONTENT. By distributing orders.

Mr. UNTERMYER. A new security that is to be introduced?

Mr. CONTENT. I should imagine, by distributing orders.

Mr. UNTERMYER. You say you should imagine. Have you not done that kind of business?

Mr. CONTENT. I may have——

Mr. UNTERMYER. What?

Mr. CONTENT. I may have had some orders to buy and sell, but I never had any orders to distribute in a new security.

Mr. UNTERMYER. You did not distribute them?

Mr. CONTENT. No, sir.

Mr. UNTERMYER. What houses do most of that business of distributing orders?

Mr. CONTENT. The houses that bring the securities out.

Mr. UNTERMYER. A banking house does its own distribution of orders many times, does it not?

Mr. CONTENT. Usually.

Mr. UNTERMYER. Is it not a fact that it is usually intrusted to some one broker to distribute orders?

Mr. CONTENT. No, sir; I do not think so.

Mr. UNTERMYER. You have known of that thing, have you not?

Mr. CONTENT. No, sir; I have not.

Mr. UNTERMYER. Suppose a corporation wants to make its securities active. Does it employ a broker?

Mr. CONTENT. What do you mean by a corporation?

Mr. UNTERMYER. Some company, the people in the company—the main stockholders. Suppose they want to introduce a security on the exchange, and want to make it an active security. Do they employ a broker to create that activity?

Mr. CONTENT. I do not know. I have never been employed by them.

Mr. UNTERMYER. You do not know what goes on around you, do you?

Mr. CONTENT. I do not. I may guess; but I do not want to testify to my own guess—because it is very often bad.

Mr. UNTERMYER. To what extent do you deal in such securities on the exchange?

Mr. CONTENT. I do not know.

Mr. UNTERMYER. You can not give us any idea of it?

Mr. CONTENT. No.

Mr. UNTERMYER. I mean you are a large trader—that is the point?

Mr. CONTENT. I trade myself, and I have customers.

Mr. UNTERMYER. Do you not know that a brokerage house is the usual medium through which these orders are given out—these orders to make a stock active?

Mr. CONTENT. No, sir; I do not think so. I think the banking houses are generally the ones that distribute their own orders.

Mr. UNTERMYER. You think they distribute these orders?

Mr. CONTENT. They give them to brokers.

Mr. UNTERMYER. They give out orders to brokers to buy, and to brokers to sell?

Mr. CONTENT. I should imagine so.

Mr. UNTERMYER. What?

Mr. CONTENT. I should imagine so. The reason orders are given out to sell is simply to see that things do not occur that have occurred two or three times—that the market does not get away. You list a new security, and there might be a great many buyers, and to prevent that wild excitement they place orders in on the scale up and on the scale down, for bad news or anything like that.

Mr. UNTERMYER. That is, when the orders to buy are placed the orders to sell are placed with other brokers, are they not?

Mr. CONTENT. Yes, sir.

Mr. UNTERMYER. And are the orders to buy placed on the scale?

Mr. CONTENT. Those are: but if they want to buy they give market orders. They do not know whose stock they are going to get.

Mr. UNTERMYER. Never mind about that. Let us keep to the point.

Mr. CONTENT. Well, that is the point.

Mr. UNTERMYER. The orders to buy are given on a scale up?

Mr. CONTENT. I should imagine so.

Mr. UNTERMYER. And then the orders to sell are given at the same time on a scale down?

Mr. CONTENT. On a scale down.

Mr. UNTERMYER. If they want to introduce the security, do they give orders to sell as much stock as they give orders to buy?

Mr. CONTENT. Every case is different.

Mr. UNTERMYER. Each case is different?

Mr. CONTENT. Yes, sir.

Mr. UNTERMYER. And that you consider entirely legitimate?

Mr. CONTENT. I do.

Mr. UNTERMYER. Do you not undersand that where that is done in order to get a higher range of prices the public is deceived?

Mr. CONTENT. I do not think so.

Mr. UNTERMYER. Suppose through the manipulation of buying and selling orders such as you have described and the execution of those orders the stock is put up, is it not put up artificially?

Mr. CONTENT. No.

Mr. UNTERMYER. You think that is perfectly natural?

Mr. CONTENT. I do. Your question supposes that when they give an order to put a stock up or put a stock down it is accomplished?

Mr. UNTERMYER. No; I do not suppose it is accomplished.

Mr. CONTENT. But from your questions——

Mr. UNTERMYER. Let us see if it is accomplished or not.

Mr. CONTENT. There are other influences that come in between.

Mr. UNTERMYER. The public comes in between, does it not?

Mr. CONTENT. Very often.

Mr. UNTERMYER. Yes; and sometimes one of these orders matched against the other does not work out?

Mr. CONTENT. They are not matched. I take exception to that, too.

Mr. UNTERMYER. In that sense they are. If an order to sell is given and an order is given to buy at a quarter higher than the order to sell, they are in a sense matched, are they not?

Mr. CONTENT. No; I take exception to that.

Mr. UNTERMYER. You say they do not always work out, anyway?

Mr. CONTENT. They do not always work out absolutely.

Mr. UNTERMYER. But ordinarily they do?

Mr. CONTENT. No; they do not, for this reason: When a stock is listed on the stock exchange a majority of that stock can not be held by any one group of men before it is listed, and when it is listed there are probably 50 other interests, if the stock is large enough, who all have stock, and who might want to buy or who might want to sell.

Mr. UNTERMYER. Do you not know that when a new stock is issued—say a syndicate issues a new security; do you understand?

Mr. CONTENT. Yes.

Mr. UNTERMYER. And puts it on the market?

Mr. CONTENT. Yes.

Mr. UNTERMYER. Do you not know that in such cases the syndicate participations are frequently delivered under an understanding that they are not to be disposed of for a given time—six months or a year or whatever it may be—so that while the stock is in the hands of people nominally, they are under commitment not to part with it?

Mr. CONTENT. No; that is what I——

Mr. UNTERMYER. You do not know that that is the way markets are made for new securities?

Mr. CONTENT. I do not think that is done any more. I have not heard of its being done in years.

Mr. UNTERMYER. In how many years?

Mr. CONTENT. In years. I have not heard of that being done in five years.

Mr. UNTERMYER. You have not?

Mr. CONTENT. No.

Mr. UNTERMYER. You have not heard of its being done within six months?

Mr. CONTENT. No; I have not.

Mr. UNTERMYER. Why should not anybody who wants to make a stock active, and wants to get a higher level of prices, simply go in and buy the stock without putting in selling orders?

Mr. CONTENT. If they want to make a higher level of prices they generally do take what stock is in the market.

Mr. UNTERMYER. What is the purpose of putting in the selling orders?

Mr. CONTENT. They do not do it if they want to buy the stock.

Mr. UNTERMYER. What is it they want to do when they put in buying and selling orders? That is when they want to make it active without buying, is it not?

Mr. CONTENT. That is when they do not want to buy the stock.

Mr. UNTERMYER. They do not want to buy the stock, and yet they want to have it appear that the stock is being actively traded in. Is that right?

Mr. CONTENT. That is right.

Mr. UNTERMYER. And that you consider perfectly justifiable?

Mr. CONTENT. I do.

Mr. UNTERMYER. Do you not think that that rather attracts the public and leads them to believe that the stock is being actively traded in, when in fact it is not?

Mr. CONTENT. No; I do not think it deceives the public.

Mr. UNTERMYER. You do not? Do you think the public knows what is going on behind the scenes?

Mr. CONTENT. I think the public have all benefited by it.

Mr. UNTERMYER. Oh! You think they have benefited by it, do you?

Mr. CONTENT. Yes.

Mr. UNTERMYER. What do you mean by that?

Mr. CONTENT. I mean I think that people who have gone in—you can mention a few cases in the stock exchange——

Mr. UNTERMYER. No; but on the whole?

Mr. CONTENT. On the whole, I think that people who have gone into stocks on the stock exchange have all been benefited by it.

Mr. UNTERMYER. You think that, as a rule, people who buy stocks on the stock exchange make money? Is that it?

Mr. CONTENT. Those that keep them; yes.

Mr. UNTERMYER. You think they make money. What about the people who buy on margin? Do they benefit, too?

Mr. CONTENT. Sometimes.

Mr. UNTERMYER. I mean do you think the rule is that it is a good thing for them, too?

Mr. CONTENT. No; because I think they——

Mr. UNTERMYER. Do you think it is a good thing for them?

Mr. CONTENT. I like it myself. I can only answer for myself.

Mr. UNTERMYER. That is not the question. We are speaking of your consideration for the public, Mr. Content. Do you think it is a good thing for the public, and that the public has been benefited by buying stocks on margins?

Mr. CONTENT. If they do not buy too many.

Mr. UNTERMYER. Take the last occurrence of a few days ago. Do you think the people who had stocks on margins during that flurry were benefited?

Mr. CONTENT. No; I know they were not benefited.

Mr. UNTERMYER. They were wiped out, were they not?

Mr. CONTENT. Oh, I do not know about that; if they had sufficient margin they were not wiped out.

Mr. UNTERMYER. You do not know that people were wiped out when there were declines such as we had in the last week?

Mr. CONTENT. I suppose there were some wiped out. I know there were some wiped out.

Mr. UNTERMYER. Yes; but on the whole you think it is a good thing for the public to speculate in stocks?

Mr. CONTENT. I do, if they want to speculate.

Mr. UNTERMYER. That is all. Is there anything you would like to say?

Mr. CONTENT. No, indeed.

Witness excused.

TESTIMONY OF J. P. GRIER.

The witness was sworn by the chairman.

Mr. UNTERMYER. Mr. Grier, you live in New York, do you not?

Mr. GRIER. I do; yes.

Mr. UNTERMYER. And are you a member of the New York Stock Exchange?

Mr. GRIER. Yes.

Mr. UNTERMYER. Of what firm are you a member?

Mr. GRIER. C. D. Barney & Co.

Mr. UNTERMYER. Are you the floor member?

Mr. GRIER. Yes; one of the floor members.

Mr. UNTERMYER. How many members of your firm are members of the exchange?

Mr. GRIER. Two.

Mr. UNTERMYER. How long have you been connected with the New York Stock Exchange?

Mr. GRIER. Either 9 or 10 years. I do not know whether it was in 1902 or 1903 that I joined.

Mr. UNTERMYER. C. D. Barney & Co. do a very extensive brokerage business, do they not?

Mr. GRIER. More of an investment business.

Mr. UNTERMYER. Do they do a very extensive speculative business for customers?

Mr. GRIER. I should not say very extensive; no.

Mr. UNTERMYER. Do they act for numerous syndicates in the marketing of securities?

Mr. GRIER. No; I should say not.

Mr. UNTERMYER. Have they, from time to time, so acted for syndicates?

Mr. GRIER. In marketing stocks on the New York Stock Exchange?

Mr. UNTERMYER. Yes.

Mr. GRIER. I should say not. Not since I have been connected with the firm.

Mr. UNTERMYER. They do not market stocks for any pool?

Mr. GRIER. I do not think there has been a pool on the books since I was a member of the firm.

Mr. UNTERMYER. That is not your class of business, is it?

Mr. GRIER. No, sir.

Mr. UNTERMYER. Are you familiar with that kind of business?

Mr. GRIER. No.

Mr. UNTERMYER. You know it is done, do you not?

Mr. GRIER. I take it for granted it is done. I have heard so.

Mr. UNTERMYER. Do you deal for large operators?

Mr. GRIER. We have some large operators on our books; yes.

Mr. UNTERMYER. Those are speculators, are they not?

Mr. GRIER. No, they are nearly all investors. I should not say all, but a good portion of them are.

Mr. UNTERMYER. You know, do you not, that there are half a dozen or a dozen big speculative operators in New York?

Mr. GRIER. Yes.

Mr. UNTERMYER. And that they conduct these speculative and manipulative accounts on the exchange. Do you represent any of them?

Mr. GRIER. None.

Mr. UNTERMYER. Do you know the mode of procedure by which that sort of business is conducted?

Mr. GRIER. No. I have learned more by listening to Mr. Content than I ever knew before in my life.

Mr. UNTERMYER. Then I do not think we will trouble you any further.

Mr. GRIER. Thank you.

Witness excused.

Mr. George A. Field was called and sworn as a witness by the chairman, and was then temporarily excused from the witness stand to permit the examination of other witnesses at this time.

TESTIMONY OF JOHN C. OTTESON.

The witness was sworn by the chairman.

Mr. UNTERMYER. Where do you reside?

Mr. OTTESON. Plainfield, N. J.

Mr. UNTERMYER. What is your business?

Mr. OTTESON. Secretary of the Wabash Railroad Co.

Mr. UNTERMYER. How long has that been your official position?

Mr. OTTESON. Since 1889.

Mr. UNTERMYER. Has the Wabash Road had occasion for years past to have engraving done?

Mr. OTTESON. Yes.

Mr. UNTERMYER. The engraving of securities?

Mr. OTTESON. Yes, sir; stocks and bonds.

Mr. UNTERMYER. Through whom has that engraving been done?

Mr. OTTESON. The first work was done by the New York Bank Note Co. in 1889; four issues.

Mr. UNTERMYER. How many issues?

Mr. OTTESON. Four issues; three bonds and the stock issues.

Mr. UNTERMYER. What was the extent of those bond issues?

Mr. OTTESON. Thirty-four millions of first mortgage bonds, fourteen millions of seconds, thirty millions of incomes, and fifty-two millions of stock.

Mr. UNTERMYER. All that engraving you say was done by the New York Bank Note Co.?

Mr. OTTESON. By the New York Bank Note Co.

Mr. UNTERMYER. Do you remember how large an order that was?

Mr. OTTESON. I have just stated.

Mr. UNTERMYER. No; I mean——

Mr. OTTESON. In dollars?

Mr. UNTERMYER. In dollars; the cost of the engraving.

Mr. OTTESON. About $12,000 all together.

Mr. UNTERMYER. After those securities were engraved——

Mr. OTTESON. Oh, I beg your pardon; the income bonds were not done by the New York Bank Note Co. They were done by the American Bank Note Co.

Mr. UNTERMYER. After those securities were engaved, were any efforts made to have them listed on the New York Stock Exchange?

Mr. OTTESON. Yes, sir.

Mr. UNTERMYER. Will you not tell us what happened?

Mr. OTTESON. They were listed.

Mr. UNTERMYER. Oh! They were listed?

Mr. OTTESON. They were listed.

Mr. UNTERMYER. And then what happened?

Mr. OTTESON. Sometime after the New York Bank Note Co. had been ruled off the exchange, the secretary of the exchange called me down to his office and told me that no longer would they take the work of the New York Bank Note Co., and directed me to have my work done elsewhere for the stock certificates. Of course the bonds were out. I took the position that we should not be subjected to that expense; that we had a contract with them and had paid them their fee for listing the securities; but the interview ended by Mr. Ely, the secretary, very peremptorily directing me to have the work done elsewhere. After consulting with our president, a letter was written embodying my argument, and furthermore suggesting that if they would agree to pay the expense of calling in the old certificates and make good to us the difference in cost of turning the work over to the American Bank Note Co. the matter would be put up to the board.

Mr. UNTERMYER. Have you the correspondence here?

Mr. OTTESON. No, sir; I have not.

Mr. UNTERMYER. Was there any difference in price between the work of the American Bank Note Co. and the work of the New York Bank Note Co.?

Mr. OTTESON Yes, sir; the work of the American company was almost double. In fact, it is double at the present rates. We paid the New York company $50 a thousand for certificates. The American company's price is $110 a thousand.

Mr. UNTERMYER. Do you have work done by the New York Bank Note Co., too?

Mr. OTTESON. Not work that is to be listed.

Mr. UNTERMYER. But do you have all work done by them with respect to the engraving of unlisted securities?

Mr. OTTESON. Yes, sir.

Mr. UNTERMYER. Do you list securities on any stock exchange other than the New York Stock Exchange?

Mr. OTTESON. No, sir.

Mr. UNTERMYER. Has there ever been any complaint, so far as you know, of the New York Bank Note Co.'s work?

Mr. OTTESON. In the case of the issue of our first mortgage bonds they made an error in the spelling of the word "twenty" on the coupons. That is the only thing.

Mr. UNTERMYER. What was the error?

Mr. OTTESON. They left out the second "t" in the word "twenty."

Mr. UNTERMYER. When was that?

Mr. OTTESON. In 1889.

Mr. UNTERMYER. Have you known of that happening to the American Bank Note Co., too?

Mr. OTTESON. Yes, sir; the same thing a few years ago.

Mr. UNTERMYER. The same error?

Mr. OTTESON. The same error, in a Chesapeake & Ohio issue.

Mr. UNTERMYER. Otherwise has the work been very satisfactory?

Mr. OTTESON. Thoroughly.

Mr. UNTERMYER. And of as good a grade as the other work?

Mr. OTTESON. Yes, sir.

Mr. UNTERMYER. What reason did Mr. Ely, the secretary, assign for requiring you to have your certificates engraved by the American Bank Note Co., and for calling in those that had been engraved by the New York Bank Note Co.?

Mr. OTTESON. He did not request us to get the American Bank Note Co. to do the work. He simply said that we would have to get some other company to do it whose work was permitted to be listed.

Mr. UNTERMYER. Those who were permitted by the exchange to do the work of engraving securities that were to be listed?

Mr. OTTESON. Yes, sir. Those were the American, I think, Homer Lea, and the Franklin. I think they were the only ones at the time.

Mr. UNTERMYER. Were they all together?

Mr. OTTESON. It was generally understood that they were all the American.

Mr. UNTERMYER. And afterwards they were all consolidated into the American?

Mr. OTTESON. Yes, sir; so I understand.

Mr. UNTERMYER. They were formally consolidated into one company?

Mr. OTTESON. The American bought up their stock, I understand.

Mr. UNTERMYER. I think that is all, Mr. Otteson.

Witness excused.

TESTIMONY OF DAVID G. BAIRD.

The witness was sworn by the chairman.

Mr. UNTERMYER. Do you live in New York, Mr. Baird?

Mr. BAIRD. I do not.

Mr. UNTERMYER. Where do you live?

Mr. BAIRD. In New Jersey.

Mr. UNTERMYER. What is your occupation?

Mr. BAIRD. Secretary of the Lehigh Valley Railroad Co.

Mr. UNTERMYER. Have you been asked to come here in connection with this difficulty of the New York Bank Note Co. with the New York Stock Exchange?

Mr. BAIRD. I do not know why I was summoned at all.

Mr. UNTERMYER. Did your company have an experience with the New York Stock Exchange in connection with the engraving of securities?

Mr. BAIRD. Yes, sir.

Mr. UNTERMYER. When was that?

Mr. BAIRD. Oh, perhaps 20 years ago.

Mr. UNTERMYER. And in connection with what was it?

Mr. BAIRD. In connection with an issue of bonds.

Mr. UNTERMYER. How large an issue?

Mr. BAIRD. Fifteen millions.

Mr. UNTERMYER. What happened?

Mr. BAIRD. In the application for listing the sample bond was submitted, and the listing committee decided that it would not answer their purposes—that it would have to be done over again. It was done over again.

Mr. UNTERMYER. Had the bond been engraved?

Mr. BAIRD. Yes, sir.

Mr. UNTERMYER. What objection was made to the bond, if you remember?

Mr. BAIRD. Oh, I do not recall now; it is so long ago.

Mr. UNTERMYER. Is Mr. Alderson here?

Mr. BAIRD. He is; yes, sir.

Mr. UNTERMYER. What is, or what was, his relation to the Lehigh Valley?

Mr. BAIRD. He has been treasurer of the Lehigh Valley.

Mr. UNTERMYER. Was there any letter written at that time, if you remember, by Mr. Alderson on this subject?

Mr. BAIRD. No; I can not recall it, sir.

Mr. UNTERMYER. From that time have you had your securities engraved by the New York Bank Note Co., or who does it?

Mr. BAIRD. It has been done by several people, I think.

Mr. UNTERMYER. Has the New York Bank Note Co. ever been able to do any business for you since in the bonds or securities that have been listed on the New York Stock Exchange?

Mr. BAIRD. I think not.

Mr. UNTERMYER. By reason of any inferiority of its work?

Mr. BAIRD. I could not answer that.

Mr. UNTERMYER. Have you the giving out of those orders?

Mr. BAIRD. Not always.

Mr. UNTERMYER. You were informed that the work would not be accepted?

Mr. BAIRD. I was.

Mr. UNTERMYER. Have they been submitting bids to compete for it since then?

Mr. BAIRD. They declined to bid for it.

Mr. UNTERMYER. On what ground?

Mr. BAIRD. Because they told me that their work would not be accepted.

Mr. UNTERMYER. Are your securities listed on any other exchange?

Mr. BAIRD. Yes, sir.

Mr. UNTERMYER. Where are they listed?
Mr. BAIRD. In Philadelphia.
Mr. UNTERMYER. They have done work for the bonds that were listed there?
Mr. BAIRD. I think not.
Mr. UNTERMYER. Do you know that their work is accepted there?
Mr. BAIRD. That I do not know.
Mr. UNTERMYER. You do not remember whether you were offered work as good as that of other companies?
Mr. BAIRD. I would not like to say.
Mr. UNTERMYER. That is all. Is there anything else you care to say about it?
Mr. BAIRD. Oh, no.

Witness excused.

TESTIMONY OF W. C. ALDERSON.

The witness was sworn by the chairman.

Mr. UNTERMYER. Where do you live now?
Mr. ALDERSON. At present in Pennsylvania, near Philadelphia.
Mr. UNTERMYER. Are you connected with the Lehigh Valley now?
Mr. ALDERSON. No; I was up to about three years ago, when I was retired on age.
Mr. UNTERMYER. You were formerly assistant secretary, were you?
Mr. ALDERSON. I was not assistant secretary. I was assistant treasurer, and treasurer.
Mr. UNTERMYER. Do you remember the occasion of difficulty over these bonds of the Lehigh Valley that were engraved by the New York Bank Note Co.? If so, will you tell us briefly what you know of it?
Mr. ALDERSON. I recollect that the work was done by the New York Bank Note Co., because on a competitive bid they were the lowest in price, and when it came to be listed or attempted to have them listed, the stock exchange of New York refused to accept them. I saw a good many of the influential gentlemen, as I supposed, in connection with the stock exchange, but I could not get any help on the matter, and finally the bonds had to be engraved over again.
Mr. UNTERMYER. At a cost of how much to the company?
Mr. ALDERSON. That I could not tell you. It is too long ago, and I can not remember.
Mr. UNTERMYER. That is all you know about it, is it not?
Mr. ALDERSON. That is all I know about it.

Witness excused.

TESTIMONY OF GEORGE A. FIELD.

This witness had been previously sworn by the chairman.

Mr. UNTERMYER. Where do you reside?
Mr. FIELD. New York.
Mr. UNTERMYER. What is your business?
Mr. FIELD. I am at the present time vice president of the New York Bank Note Co.
Mr. UNTERMYER. How long have you been with the New York Bank Note Co.?

Mr. FIELD. About 16 years.
Mr. UNTERMYER. Who is its president?
Mr. FIELD. Mr. George H. Kendall.
Mr. UNTERMYER. During all that time has he been president?
Mr. FIELD. Yes.
Mr. UNTERMYER. Where is its place of business?
Mr. FIELD. Seventy-five Sixth Avenue, New York.
Mr. UNTERMYER. Has it been there all these years?
Mr. FIELD. During that time; yes.
Mr. UNTERMYER. Does the New York Bank Note Co. ever do any business other than that of engraving bonds and stocks?
Mr. FIELD. It does not—except, of course, stock certificates.
Mr. UNTERMYER. It is the only company that confines itself to the work of engraving, of all the companies that engrave securities?
Mr. FIELD. I believe it is.
Mr. UNTERMYER. On what exchanges is its work received for listing?
Mr. FIELD. Every exchange except New York. It has about a billion dollars' worth listed there.
Mr. UNTERMYER. About a billion dollars' worth of securities are now on the New York list that have been engraved by the New York Bank Note. Co.
Mr. FIELD. Have been accepted for listing.
Mr. UNTERMYER. That was before this trouble, was it?
Mr. FIELD. It was.
Mr. UNTERMYER. Can you tell us the history of this trouble, without further questioning?
Mr. FIELD. I think so. May I relate the relations of the New York Bank Note Co. in connection with the New York Stock Exchange?
Mr. UNTERMYER. Yes.
Mr. FIELD. It was originally formed as the Kendall Bank Note Co. in about 1879. Its name later was changed to the New York Bank Note Co., and during the time between 1879 and 1887 it made repeated attempts to secure recognition by the exchange—that is, the acceptance of work engraved by it. Up to 1887 it had never succeeded, although it had made many changes in its plant to conform to unofficial, and in one of two instances official, suggestions.
Mr. UNTERMYER. May I interrupt there to ask this: At that time what companies were recognized on the stock exchange?
Mr. FIELD. The American Bank Note Co., the Homer Lea, and the Franklin Bank Note Co.
Mr. UNTERMYER. How were they related to one another? What was their connection with one another?
Mr. FIELD. In those early years, I have no knowledge.
Mr. UNTERMYER. Go on. Down to 1887 you received no recognition. Do you know how this trouble arose?
Mr. FIELD. What trouble do you refer to?
Mr. UNTERMYER. The trouble between the New York Stock Exchange and the New York Bank Note Co. prior to 1887.
Mr. FIELD. There had been no trouble, but they simply had been unable to get their work accepted for listing.
In 1887 Mr. Jay Gould, who was president of the Western Union and several other companies, a man who had placed a good many

orders for engraving, gave us an order, giving it to Mr. Kendall, to reengrave or duplicate the certificates of the Western Union Co.

Mr. UNTERMYER. You mean by that that they had run out of certificates and needed some more?

Mr. FIELD. Yes.

Mr. UNTERMYER. The Western Union had run out of certificates and needed further books of certificates?

Mr. FIELD. Yes, sir; that is what I mean; that is the idea.

Mr. UNTERMYER. And they gave to your company the order to prepare those certificates?

Mr. FIELD. That was it; yes. Our company duplicated the same design exactly, line for line, that had been furnished by the American Bank Note Co.

Mr. UNTERMYER. That was a very common occurance, was it not, when a company's certificates or certificate books ran out to go to another company and have more made of the same kind?

Mr. FIELD. Not always another company, but sometimes.

The floating stock of the Western Union was practically taken up in about something over a year's use of these certificates engraved by the then Kendall Bank Note Co. About that time another application was made to have their work accepted by the New York Stock Exchange engraved by the New York Bank Note Co.

Mr. UNTERMYER. When was that?

Mr. FIELD. In 1887. Among other securities which they gave and as a criterion of workmanship——

Mr. UNTERMYER. To the stock exchange?

Mr. FIELD. The members of the stock exchange gave to Mr. Kendall as a criterion of workmanship two certificates of the Western Union Telegraph Co. Mr. Kendall called attention to the fact that the identical certificates that they were showing him as criterions of work were actually engraved by his company and bore the imprint at the time of his company.

Mr. UNTERMYER. Let us see if we understand that. As I understand, when your company made application to the stock exchange for leave to have your engraved certificates listed the stock exchange authorities gave you as a sample of the standard of work they would require these certificates which your company had engraved?

Mr. FIELD. Exactly.

Mr. UNTERMYER. What did Mr. Kendall tell them then?

Mr. FIELD. He called attention to the fact that he had made that identical certificate, and that therefore if he was able to do that his workmanship was equal to that of the American Bank Note Co. or other companies which were then admitted.

The result of that was that the stock exchange notified the Mercantile Trust Co., which was the registrar for the Western Union, that after the next day at 12 o'clock no transfers would be accepted or no deliveries accepted if made by the certificates of the New York Bank Note Co.

When Mr. Gould found this out he notified the exchange that if that order was not rescinded he would remove the Western Union stock and other stocks which he controlled to the board of the consolidated exchange. The stock exchange then rescinded the order.

and for upward of five years accepted the work of the New York Bank Note Co. to the extent of about $1,000,000.000, as I stated.

Mr. UNTERMYER. Its attempt to compel the Western Union or Mr. Gould to withdraw these certificates engraved by your company was based on what Mr. Kendall had told them as to his work?

Mr. FIELD. Yes; the fact that it was done by the Kendall Bank Note Co.

Mr. UNTERMYER. Then what happened? You say they rescinded the order on Mr. Gould's threat and continued to list the securities for five years?

Mr. FIELD. Yes. But in that time they did everything they possibly could, apparently, to hinder the business of the New York Bank Note Co.

Mr. UNTERMYER. Do not characterize it. What did they do?

Mr. FIELD. They found repeated fault with the work, or required that securities printed in one color and delivered to the customer should be reprinted in some other colors. The colors were usually selected by the customers, as is the custom. In connection with that the bonds of the Lehigh Valley and the Missouri Pacific were reengraved by the New York Bank Note Co. at very great expense.

Mr. UNTERMYER. That is, on account of the color?

Mr. FIELD. Yes.

This acceptance had gone on about five years, I think, when without any previous intimation of any kind they began refusing to pass upon the work, sometimes holding it up for months and months, so that it was impossible for the New York Bank Note Co. to guarantee delivery to customers at any stated period, putting them to great annoyance.

Finally, in 1892, after several different securities had been submitted by the New York Bank Note Co. for the stock-listing committee to pass upon, they returned all with a letter simply saying they were not acceptable. It was impossible for the New York Bank Note Co. to find out the reason why they were not acceptable, although they inquired personally and through friends.

Mr. UNTERMYER. Is not all that embodied in correspondence with the exchange?

Mr. FIELD. No; practically very little of that was through correspondence. It was almost entirely through personal conversation. In 1893, which was nearly a year after they had listed the last stock, which was in March, 1892, another sample was submitted to them, the Springfield Railway Co.

Previously it had been unofficially intimated by the stock exchange that they would not answer any further correspondence from the New York Bank Note Co., and might not have any samples returned which were submitted by it. This actually happened with reference to the Springfield certificate samples. They were never returned and no word has ever been received by the New York Bank Note Co. regarding them.

From 1893, for many, many years, different attempts at different times were made to have the New York Stock Exchange accept the New York Bank Note Co.'s work. Sometimes friends of Mr. Kendall or customers who objected to paying the increased prices which they had to pay went before or saw different members of the exchange in an effort to have the work accepted, but in every case without success.

In 1899 Mr. Lawson Purdy, who was then vice president of the New York Bank Note Co., succeeded in appearing before the listing committee. He appeared before them and stated the condition of the New York Bank Note Co. I do not know whether he submitted samples or not as a matter of fact. The result of that hearing was a letter saying that they declined to accept the work.

I would like to look at a memorandum for some dates, if I may.

Mr. UNTERMYER. Yes.

Mr. FIELD. I would like to state that about 1892, just prior to their refusal to accept further work from the New York Bank Note Co., an attempt had been made to purchase the control of the New York Bank Note Co. from Mr. Kendall and had failed.

Mr. UNTERMYER. By whom?

Mr. FIELD. Evidently the American Bank Note Co.

Mr. UNTERMYER. Were they competitors at that time?

Mr. FIELD. They were.

Mr. UNTERMYER. Was their work being accepted?

Mr. FIELD. It was.

Mr. UNTERMYER. Go ahead with your statement.

Mr. FIELD. In 1905 the plant of the Franklin Bank Note Co., which was then one of the three or four companies admitted, was dismantled, and part went to the American Bank Note Co. and part to the International, which in the meantime had been admitted.

In 1906 I appeared personally before the listing committee, after having seen every member of the listing committee and many members of the governing committee and several of the more influential members of the stock exchange, most of whom expressed themselves against the engraving monopoly, but at the same time they said they would not like to make official or public statements regarding it.

I appeared before the listing committee, and the result was that we received a letter saying that the work would not be accepted.

Mr. UNTERMYER. Who owns the American Bank Note Co.?

Mr. FIELD. The four largest stockholders and most influential men are: J. P. Morgan, who owns over 6,000 shares; Joseph R. Delmar, who owns nine thousand and odd shares; E. C. Converse, who owns 9,800 shares, and William Nelson Cromwell and his partner, who own over 3,000 shares.

Mr. UNTERMYER. What is the total capital?

Mr. FIELD. The total capital of the company now is $10,000,000.

Mr. UNTERMYER. That is 100,000 shares?

Mr. FIELD. No; the shares are $50 each.

Mr. UNTERMYER. That would be 200,000?

Mr. FIELD. Yes.

Mr. UNTERMYER. These four gentlemen together own only how much?

Mr. FIELD. Approximately $1,500,000, par value.

Mr. UNTERMYER. That is only 15 per cent of the company?

Mr. FIELD. Yes; but the rest of the shares are very widely scattered, and no large amounts are in any one person's hands.

Mr. UNTERMYER. Are any of them held by stock-exchange members?

Mr. FIELD. Over 50 members of the stock exchange were found to be stockholders.

Mr. UNTERMYER. Where do you get this data with reference to the stockholders?

Mr. FIELD. This appears in the sworn complaint Mr. Kendall made in a suit.

Mr. UNTERMYER. Where do you get it? Have you got a stock list?

Mr. FIELD. The stock list was obtained by a stockholder who got it and made affidavit to that effect.

Mr. UNTERMYER. But is this statement you are making to us now taken from an official stock list or merely from Mr. Kendall's statement in a lawsuit?

Mr. FIELD. It was taken from the stock books of the American Bank Note Co.

Mr. UNTERMYER. You are sure of that?

Mr. FIELD. Yes, sir.

Mr. UNTERMYER. Go ahead, then.

Mr. FIELD. In 1909 the New York Bank Note Co. complained to Gov. Hughes regarding the engraving monopoly. The complaint was referred to the Hughes investigating committee, which was sitting. I appeared before that committee in 1909. As a result of our complaint, the Hughes investigating committee made a report concerning the engraving monopoly.

Mr. UNTERMYER. Have you that report?

Mr. FIELD. I have; yes.

Mr. UNTERMYER. Was that the commission of which Mr. Horace White was the chairman?

Mr. FIELD. Yes.

Mr. UNTERMYER. About which we have been speaking here?

Mr. FIELD. Yes. Do you wish me to read the report?

Mr. UNTERMYER. Read any part of it that you care to read, or that has special reference to this subject, rather than to read it all.

Mr. FIELD. Yes. This is the report signed by Mr. Horace White, a part of which reads as follows:

> We have given the officers of the stock exchange an opportunity to reply to this complaint. They say that on several former occasions they examined the work of the New York Bank Note Co. and its predecessor, the Kendall Bank Note Co., and found that it did not meet the requirements of the exchange as to goodness of work, safeguards for plates, etc., and that the following named corporations are now eligible for such work to be used in dealings on the stock exchange:
>
> American Bank Note Co.; International Bank Note Co.; Western Bank Note & Engraving Co. of Chicago; British-American Bank Note Co., for Canadian securities; Bradbury, Wilkinson & Co., London, England, for securities other than American and Canadian.
>
> It appears to have been the practice of the American Bank Note Co., or the company which now owns it, the United Bank Note Co., to absorb any other company that acquired the right to do work for the New York Stock Exchange. In this way the Homer-Lea Note Co. and Franklin Bank Note Co. were absorbed in 1904, and the International Bank Note Co. and the Western Bank Note & Engraving Co. in 1905. although the corporate existence of the two last named companies is still preserved. The officers of the exchange admit that the companies which issue securities are sufferers from this monopoly, both as to promptness of delivery, and say that the exchange would be glad——

Mr. UNTERMYER (interrupting). Both as to promptness of delivery and prices charged. is it not?

Mr. FIELD. In the published report those words "prices charged" were omitted.

Mr. UNTERMYER. Both as to prices charged and promptness of delivery?

Mr. FIELD. "Prices charged" was omitted in all published reports.

Mr. UNTERMYER. No; you are mistaken.

Mr. FIELD. In the newspaper reports, I mean, and, in fact, all the other reports I have seen. [Reading:]

The officers of the exchange admit that the companies which issue securities are sufferers from this monopoly both as to promptness of delivery and say that the exchange would be glad to be relieved of such monopoly.

From sources not connected with any of the parties to this controversy we learn that, although the stock exchange will accept the work of certain foreign engraving companes, they will accept it only for foreign securities and that attempts by American corporations to avail themselves of competitive prices by securing bids from foreign engravers have been thus defeated. From this it would seem that other considerations than the goodness of the work and carefulness in guarding the plates are here operative and that the stock exchange has not rid itself of the evils of monopoly.

Yours, very sincerely, HORACE WHITE, *Chairman.*

I want to call your attention to what we call the apparent bad faith of the exchange——

Mr. UNTERMYER (interrupting). No; I think we should strike that out. If you have any facts, Mr. Field, I think it is all right to state them.

Mr. FIELD. Let me state it this way, that there is in addition to that—well, that point I will make a little later, if I may.

Mr. UNTERMYER. Very well. You understand I mean it does not seem quite fair to characterize a thing without describing the facts.

Mr. FIELD. Immediately after that report, or two or three months after that report, the stock exchange permitted the foreign companies named in the report to do work for domestic corporations, but they are barred from doing work on anything like a competitive basis by reason of the fact that there is 25 per cent ad valorem duty on all engraved matter imported into the United States; and in addition to that, the time required in handling this work abroad would make it almost prohibitory, because the average length of the stock order or bond order is perhaps 60 days, and there are many requirements to confer in connection with alterations and the submission of designs and proofs, etc.

Mr. UNTERMYER. Your point is, the admission of the English companies or foreign companies to compete with the American Bank Note Co. does not amount to competition at all?

Mr. FIELD. Exactly; that is correct.

In 1909 Mr. Kendall wrote a letter to the listing committee of the stock exchange. May I read that letter?

Mr. UNTERMYER. Yes. Is there a reply to it?

Mr. FIELD. Yes. The letter reads as follows:

DECEMBER 21, 1909.

Stock List Committee of New York Stock Exchange.

GENTLEMEN: We are about to give great publicity to the inclosed letter in the New York newspapers. If you will point to us where it is unfair, incorrect, untruthful, or misleading, we will revise it in the light of the facts you adduce. Kindly return the manuscript.

Yours, very truly, GEORGE H. KENDALL, *President.*

This is the letter which Mr. Kendall sent with that:

How long will the members of fair and unbiased mind allow the committee on stock list to discriminate against all competitors of the American Bank Note Co.? Will they not at some time, in simple justice and for a love of fair play demand of their representatives that the undersigned company no longer be excluded from doing business?

For more than 35 years the New York Bank Note Co. has been a postulant for a genuine admission of its engraving and printing to dealings on the board and at all times has been worthy of it. We are unofficially told that control of our institution must be divided among several stockholders. We reply, "That is pointing us direct to control by the American Bank Note Co. through the same means by which it acquired control of the Lee, Franklin, and International of New York, the Western of Chicago, and some 24 other concerns, several of which are collusively operated as ostensible competitors." Stating it another way, the present control is the only way to maintain an actual competition in the trade. It may be harsh for us to speak of the committee on stock list as having robbed us of our prosperity, robbed the public of our competition, and by this means enriched the stockholders of the American Bank Note Co. in an aggregate of tens of millions. But how would you say it if you were in our place?

As an illustration of the situation, if the Pennsylvania Railroad, or any other corporation, should give us an order to make some bonds for it and offer the issue for listing, the committee would say, "You must throw them away and get them engraved by the American or one of its subcompanies before we will consider your application." If you do not believe this, ask the committee on stock list to deny it.

As another illustration, and to give some idea of what this monopoly may amount to, the average dealings in stock are many hundred thousand shares daily, and the rules of the exchange preclude more than 100 shares being written upon any one certificate. The American's price is not less than 10 cents each. Our price does not exceed 6 cents each. We estimate the total output of the American and its subcompanies to the country as being in the vicinity of 50,000 certificates per day, by no means all of which are used on the New York Stock Exchange, but which, by reason of the mononoly and the ensuing prestige, the customer is practically forced to pay this difference in price, which, if these figures are substantially correct, shows $2,000 per day excess cost to the public. Bonds, though not rendered useless by transfer, are much more expensive still, and our prices are in the vicinity of one-half of theirs.

From 1880 to 1887, during which time we spent a fortune to comply with the stock list committee's recommendations, on which they never made us any report, they said we did not do work good enough to meet their requirements. Mr. Jay Gould privately gave us the Western Union stock certificate to do, which we duplicated exactly, except that we placed our name as the maker instead of the American Bank Note Co., and during the ensuing year he took up all the floating stock in the Street engraved by the American, issuing ours in its place. No one in the exchange ever discovered the substitution of our certificate. In fact, they were so exact that no one ever discovered that there had been any change in the engraving or engraver or printing. When we called the attention of the stock list committee to this test of the quality of our work, which they had been handling for a year, they promptly sent word to the transfer agent, the Mercantile Trust Co., not to transfer any more of the certificates of the Western Union Co. on to those engraved by us, as they would not be received as a good delivery after 12 the next day. Mr. Gould replied that if this ruling were adhered to he would take Western Union and all of the corporations that he controlled to the Consolidated Exchange, where he could get fair consideration for the engraving of his securities. Then the committee yielded, and for the next five years we were admitted, and the stock list committee accepted as listable more than 100 issues aggregating in the vicinity of one billion of dollars of capitalization made by us. But how? For the most frivolous excuses, such as that the committee preferred to have Lehigh Valley and all other large issues of bonds printed in brown after we had delivered them in green, or vice versa, and by similar exactions we were put to continuous and untold losses. Nevertheless, we prospered at prices 40 per cent less than the American's, because their prices were more than half profit. For instance, as the stock exchange records will show, we were ordered not to deliver any of our work to our customers until the stock-listing committee passed on the proofs, which they sometimes delayed. Meanwhile our customers were naturally greatly embarrassed by this holdup.

Mr. Sage was our president for seven years, and in 1892 he tried, through an infamous process, to enforce a demand that I join his 10 per cent of stock and sell my controlling interest to the American. I refused, and the stock exchange immediately stopped listing anything engraved by us, and have so continued until to-day.

We have been assured by the most eminent lawyers that we have no redress; that the stock exchange is not a corporation; and that the American Bank Note Co. can avail itself of any favoritism the exchange may show it. We are also advised that for the same reason the public has no means of escaping the extortionate prices of a monoply which we have persistently fought for 30 years. It is well that the public should know, even as the security customers now know, the meanness, the restraint of trade, the throttling of competition, the forcing of consumers of printing to pay two prices, the successful evasion of legal responsibility, and the crushing of a competing bank-note company by not allowing the public to do business with it, or requiring it to put itself in a position where the American can get it, and by putting such frivolous conditions upon it when they accepted its work that it could not do business.

It is certain that a large proportion of the corporations of the country would gladly give us their orders at a great saving to themselves if the exchange would let them.

On the date of November 4 the New York papers published the news that Waterloo & Sons, of London, had been granted the right to engrave securities for listing on the New York Stock Exchange. This was generally commented upon by the papers as "breaking the engraving monopoly." Is this the case? The exchange has passed over a local company, known to be a genuine competitor, and has admitted a foreign corporation which may be as closely connected with the American Bank Note Co. as Bradbury, Wilkinson & Co., also of London, which the American controls. In any case a London company can not seriously compete for American contracts in security engraving, work in which time is the essence, and less than 60 days the average life of an order from start to finish, and where frequent conferences as to details, approval of designs and proofs, the making of alterations, etc., are essential. Altogether, does it not appear that "to break the monopoly" a competitor has been selected who can do the least possible damage to the Bank Note Trust?

The Hughes commission, in response to our request that it investigate the bank-note phase of the exchange, in their report touched upon this subject. I will quote from the last sentence:

"From this it would seem that other considerations than the goodness of the work and carefulness in guarding the plates are here operative, and the stock exchange has not rid itself of the evils of monopoly."

GEORGE H. KENDALL,
President of the New York Bank Note Co.

Mr. UNTERMYER. Did you get a reply to that?

Mr. FIELD. We did. This is the reply.

Mr. UNTERMYER. Read it.

Mr. FIELD (reading):

NEW YORK STOCK EXCHANGE, SECRETARY'S OFFICE,
COMMITTEE ON STOCK LIST,
New York, December 29, 1909.

GEORGE H. KENDALL, Esq.,
President New York Bank Note Co.

SIR: I have received your communication of December 21, in which you state that you "are about to give great publicity to the inclosed in the New York newspapers."

The inclosure referred to is an article purporting to be signed by you, making a violent attack upon the New York Stock Exchange because, as stated by you, the engraving work of your company has not been passed upon by it as satisfactory.

I have submitted this extraordinary communication to the committee on stock list, to which you addressed it.

I need hardly state to you that this article which you inclose is filled with statements which are both misleading and untrue, for you must know of your personal knowledge that such is its character. I have no intention of entering upon a controversy with you in the public press. Such methods may commend themselves to your judgment; they certainly do not to mine. You are quite at liberty to publish whatever you choose to take the responsibility of publishing, but you must be well aware that repeated opportunities extended to you only demonstrated that the work and methods of the various successive companies under your management or control were so inferior to those of their competitors that the exchange, in the interest of investors in securities, found itself unable to pass upon them as satisfactory.

As requested by you, I herewith return the paper inclosed in your communication.

Yours, truly, WILLIAM W. HEATON, *Chairman.*

Mr. Kendall wrote them, in reply to that, this letter which I have here.

Mr. UNTERMYER. Just state the substance of what it says.

Mr. FIELD. He simply called attention to the fact that if they would point out any inaccuracies or misstatements in the statement he would correct them; and also would keep such matters confidential, so that anything they said would not necessarily be published. They replied to it by returning the manuscript with a little letter saying they were returning it.

Mr. UNTERMYER. What else have you to offer?

Mr. FIELD. In 1910 Mr. Kendall appeared before the Ways and Means Committee of the New York Legislature and stated the facts fully to them.

Mr. UNTERMYER. Have you not stated the controversy now, Mr. Field?

Mr. FIELD. Up to June, 1910. There have been developments since then.

Mr. UNTERMYER. You brought a lawsuit, did you not?

Mr. FIELD. Yes.

Mr. UNTERMYER. We do not want to go into that.

Mr. FIELD. All right. In June, 1911, there was a considerable controversy arose over the city of New York bonds.

Mr. UNTERMYER. That we want to know something about.

Mr. FIELD. The supervisor of city records, who has the detail of the matter of placing the engraving for New York City, requested us to bid on an issue of $60,000,000 of bonds of the city of New York. We replied that it would be no use to bid, because our work would not be accepted on the New York Stock Exchange, and that we had made repeated efforts to get such work for many years, always with the same result, that they would not let us bid; or if they did they would not consider the bid. He requested us in this case to put in another bid, which we did. Our bid was $44,500. The American's bid was $62,000. They afterward reduced their bid 10 per cent, making it $55,800, which was still $11,000 over our bid. On account of this difference in price the comptroller wished to place the order with us. Before doing so he sent Mr. Ferguson, supervisor of city records and deputy comptroller, to see Mr. Ely, secretary of the New York Stock Exchange, to find out whether, if the bonds were engraved by the New York Bank Note Co., they would or would not be listed. Mr. Ely did not give them any satisfaction. He would not answer yes or no. Then the comptroller wrote a letter to the New York Stock Exchange asking that question.

Mr. UNTERMYER. The fact is you got the order?

Mr. FIELD. Yes.

Mr. UNTERMYER. And you did engrave the bonds of the city of New York?

Mr. FIELD. We did.

Mr. UNTERMYER. Were they listed or were they refused?

Mr. FIELD. They were refused listing.

Mr. UNTERMYER. Are they still refused listing?

Mr. FIELD. Yes.

Mr. UNTERMYER. With respect to the bonds of the State of Rhode Island, did you engrave those?

Mr. FIELD. We did.

Mr. UNTERMYER. And have you engraved bonds for various cities and public authorities?

Mr. FIELD. Many of them.

Mr. UNTERMYER. Do you do that work all over the country?

Mr. FIELD. Yes, sir.

Mr. UNTERMYER. Have you met with any difficulties elewhere such as you have met with here?

Mr. FIELD. Practically not.

Mr. UNTERMYER. That is about all there is to it, is it not?

Mr. FIELD. I think so.

Witness excused.

The CHAIRMAN. Gentlemen, the committee will adjourn at this time until next Monday at 2 o'clock p. m.

Whereupon, at 3.30 o'clock p. m., the committee adjourned until Monday, December 16, 1912, at 2 o'clock p. m.