April 4, 1936.

Mr. W. L. Gregory,
Plaza Bank & Trust Co.,
14th & Olive Sts.,
St. Louis, Mo.

Dear Greg:

Please forgive my not answering your long letter sooner but I have been in Washington almost continually during the past ten days with the exception of a return to New York last Wednesday and Thursday. I did not go to the office or get any of my mail at that time.

I am afraid I can be of little help on the question that you raise. I think it is well to be cautious at the present time, but cannot help but continue to be quite optimistic. The near term outlook for stock prices may be somewhat dubious, but the longer term outlook appears to me to be definitely upward. I can see no reason for any particular alarm at the present time other than the fact that on the basis of earning, stocks look unreasonably high and bonds yield almost nothing. It is well to remember, I think, that the problem of excess reserves which seems to be weighing so heavily on most of the bankers of the country, is in my opinion one for the future and not for the present. Since February 1st, 1934, the Reserve Banks have bought no government bonds and at that time the excess reserves stood at a figure of approximately 800,000,000 dollars, which would not appear to be unreasonable for facilitating business recovery. I am inclined to think that the Federal Advisory Council and some of the bankers strongly urging liquidation of Government bonds by the system, have their minds on the fact that their short term governments are gradually running out and they would like to pick up some longer term government bonds for their own account in the open market. Perhaps I am just cynical in this. The balance of the excess reserves represents a gold inflow to this country and while at present it looks like a time deposit, it must still be considered as a demand deposit subject to immediate withdrawal. If a considerable portion of this money should move into our markets, then I think a real danger would loom. It is impossible down here to determine how much of this money is going into the market, but from careful checking of the large houses in Wall Street, I am quite confident that at the present time it is a negligent amount. Such being the case, it looks to me as though the danger is six months to a year ahead.

I spoke to several people in the Department of Commerce whose opinions I have come to rely on. I have also made my own individual checks and am amazed at the extent of business recovery at the present time. It looks to me like this will continue for some time and the Easter retail trade appears to me better than at any time since I have been watching it.

almost amounting to a buying splurge. As long as this continues, the market may be subject to technical reactions, but I can see no reason for expecting any broad liquidating movement. One of my good friends who has been in charge of the United States Steel Research Laboratories informs me that he thinks it possible the steel rate may get up as high as 72 to 75% by the middle of June and this cannot fail to react favorably on other lines if true.

I am sorry that I cannot be more bearish for you as you seem to be somewhat in the position of a sold-out bull, but I give you this for what it is worth. I received a card from Mr. Von Wändegger and was told that he had called while I was out of town. I am sorry I missed him and hope you will give him my best.

Cordially yours,