

October 11, 1935.

Dear Pres:

I enclose as usual the minutes of the Q.C. meeting for the past two weeks. You will note with interest the matter of Newhard-Cook & Company where there was no question that they were caught in an unethical proceeding. They seemed to have explained this satisfactorily through passing the buck to one Mr. Dumont Dempsey of whom I know nothing, but it is rather interesting I think the amount of effort they made to accomplish this. I am not at liberty to disclose the details but suffice it to say that they will probably be watched very closely for any similar moves in the near future.

Mr. Gay addressed the American Management Association Wednesday evening and succeeded in getting a great deal more publicity than he had desired and of course is credited with having started the recent upward move in the market. This worries him a good deal and it took a lot of courage on his part to break away from the conservative viewpoint of the past and actually lay the ground work for placing some of the responsibility for stock movements where it rightly belongs. I had a good deal to do with the writing of this speech and felt toward the whole matter a good deal as though it was a personal issue or as a father might toward a child, so that I really suffered a good deal more during the address than if I had made it myself. In fact Mr. Gay is such a bad speaker that there were several times when I wanted to rush up on the platform and show him how it ought to be done. It is really wonderful how conceited we all are and how we always think we could do a whole lot better than the other men. As a matter of fact, it came off very well and has done a great deal to aid the Exchange in taking a more progressive viewpoint as well as working toward cleaning up its own internal organization. Mr. Gay's most important address of the year will be delivered in Chicago next Thursday evening and should stir up a good deal of interest throughout the Mid-west if he succeeds in getting across the point that the Stock Exchange clearly recognizes that it is not a private club but a national institution and that irrespective of such problems as branch offices and other local issues, its first responsibility is to the public. He will attempt to reiterate in the course of that address the responsibility of the Federal Reserve Board, the Treasury Department and the S.E.C. for the ultimate welfare of the banking community. Mr. Davis has been a great aid to the Exchange in liberalizing its viewpoint so far as the country as a whole is concerned and it becomes increasingly apparent that if the Exchange is to regain the position it formerly held, the influence of conservatives like Mr. Whitney, Simmons and Lindley must continue on the wane.

Mr. Lonsdale was the toastmaster at the dinner in New York and I listened to him gas off for about fifteen minutes beforehand. He now thinks the solution of the railroad problem (he is an authority, he now admits, because of his receivership of the Frisco,) lies in the sale of income bonds to the public. However he looked a little blank when I asked him who the public was that would buy them and he admitted that he didn't consider them a very good investment himself. He is a very queer fellow and he continues extremely nice to me, though I would hate to count on him as a friend.

I have had to do a great deal of work recently on exchange matters such as working on the speech of Mr. Gay's and laying the ground work for his Chicago appearance next week. I had several nice talks with Mr. Landis and

am considerably worried about the progress being made on the matter of segregating the dealer and broker. At the Stock Exchange Institute meeting Thursday morning, Mr. Landis met the issue full-tilt and while you could put on most any interpretation you wanted, on the actual tendency of his mind, there is no doubt in my own mind but that he still leans towards segregation. I am told via Professor Frankfurter that before Mr. Roosevelt went west, he urged on Mr. Landis the necessity for settling this issue once and for all and the hope that several of us here had entertained that when Congress reconvened, he might pull the political stunt of stating that it had been impossible to adequately study the matter in the time allotted and therefore was in no position to recommend anything of this kind, thereby tabling the matter for the present and on account of legislative inertia, probably for all time, or at least until after the next important stock market break. If this is so, the problem becomes increasingly more important and inasmuch as several of the key men are excellent friends of mine and like me personally, I have made several trips to Washington to try to get across our viewpoint to them. I don't enjoy this sort of work and would not engage in it if I were not so absolutely certain that the method which they are taking is utterly unfair and will not work out for the good of the whole. I have gotten to like Landis a good deal better and think he is a sincere public servant so that I think it is probably just a matter of making him see it in the proper light and we can count on his decision to be an honest one. However, he is surrounded by a number of people who have axes to grind and are very smart. They I am afraid having only theoretical knowledge are combining their talents with their emotions to produce a horrible hodge-podge. Perhaps I am spending too much time and energy on this type of work but from the community standpoint, all of it is worth while and will ultimately produce real results.

The stock market continues to move upward and with the exception of the oils, which as you know I am not bullish on, has been doing quite well. Chrysler continues to climb toward the hundred mark and I can see nothing but higher prices over the longer term period. Volume I am inclined to believe will also pick up. The best business students, both here and in Washington are convinced that the trend is up until at least next April or May. The possibility of inflation is no longer upon us. Inflation is actually here, and with the steady influx of gold into this country from abroad, being further accentuated by the Ethiopian-Italian war, when one considers that each dollar of gold in our vaults is in theory at least the base for \$25.00 in currency, plus the fact that our excess reserves are getting close to the three billion mark, it is difficult to see why anyone should liquidate stocks. We might at any time have a ten point reaction but there would probably be selective strength in individual issues at the same time, so that it seems very foolish to sell anything except on a quick trading basis.

The office has been running quite smoothly except that we now have a problem in the case of an individual through whom we have been getting a good deal of business, who is a trader for G. L. Ohrstrom and Company. He has made several purchases through us for customers and on the same day has bought the same securities at a lower price for himself, this apparently with the full knowledge of the company for whom he is working. I am convinced from careful examination that there is nothing out of the ordinary in what he has done so far, but in principle I would not have a man working for me who traded for his own account at the same time he was executing customers' orders, so that regardless of whether these purchases and sales were of a bona fide character, it may be straining at a knot, but I am afraid I will

have to ask him to take his account elsewhere. I am not worried about the loss of commissions, but inasmuch as he is Reggie's brother-in-law and Reggie can't see my viewpoint in the matter, I am afraid it will cause us considerable trouble for a while. Reg, like all these traders in the street, has absorbed some of the Wall Street methods of winking when it does not directly concern you and of course strictly speaking, it is none of our business and there is no question whatever but that there are a dozen other houses who would accept the account without any hesitation whatever and be only too glad to get it. Still I think it is better to be on the safe side as I don't want our books to be in any shape so that an auditor might some day feel that we were an accessory to dishonest trades. I am told that I have too high standards on this sort of thing but know that you agree with me, that we would much rather starve than in any way cast reflections on the integrity of the firm. One of the things I liked the most about our position all during the recent depression is that no matter how lousy our judgment may have been and it was unquestionably pretty bad in some spots, still we were in a position to at all times account on a conscience basis for everything we had done.

I am taking courses at Columbia now with Moley and Wolman and get a great deal of pleasure out of hearing their comments in the privacy that a small class provides on the so-called new deal experiment. I think that they are both considerably dissillusioned about Mr. Roosevelt personally and are beginning to think that he is just another opportunist who has sold his birth-right for votes. Competent political observers in Washington now think that Mr. Roosevelt after his recent trip west is a two-to-one choice to be re-elected but to my great surprise they are considerably worried on the democratic side at the persistence of the ground swell which the Republicans are encouraging toward Landon of Kansas. They do not seem to be a bit worried about Col. Knox as they think he will talk too much once his name gets before the public and many here think that Hoover is definitely opposed to Knox in much the same way as he is to Borah. I am told in strict confidence that two recent straw votes taken of important political leaders gives the definite impression that the Roosevelt losses have not been stemmed even by his recent speaking tour, that the New England states and New York as well as Pennsylvania will definitely enter the Republican column and that the far West will also be Republican with serious inroads being made into the solid South and the necessity of maintaining Mr. Roosevelt's popularity in the mid-west being accentuated by the possibility of such a popular man as Mr. Landon running in his own territory. I still don't take very much stock of these and personally would bet three-to-one on Mr. Roosevelt, particularly as I think there will be enough business improvement during the balance of the year and the early part of next year to provide him with enough ammunition to make a plea for re-election on his record. The Republican chances are being strengthened by their sudden awakening to the fact that the Constitution was not written by God and that ~~xx~~ while it is a popular rallying ground, they better not stand for it in its entirety or it may prove just as bad a rock to them as it has to Mr. Roosevelt. Mr. Moley seems to be most worried that large sums of money are contributed freely to the Republican cause while even such heavy contributors as Mr. Raskob and the Al Smith crowd are providing nothing for the Democrats. Well, this gives you the picture down here pretty well.