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October 5-9
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### Contents of This Issue

#### Articles and News

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>What Can Traders Do in a Rights Offering?</td>
<td>6</td>
</tr>
<tr>
<td>Gold and World Recoveries— Merrill E. Sharp</td>
<td>7</td>
</tr>
<tr>
<td>The Equity Share as an Inflation Hedge</td>
<td>8</td>
</tr>
<tr>
<td>The Business and Market Outlook</td>
<td>9</td>
</tr>
<tr>
<td>Europe on the Sales Count—Melchior Falby</td>
<td>10</td>
</tr>
<tr>
<td>Tax Deductions for Workforce Securities</td>
<td>11</td>
</tr>
<tr>
<td>Herbert Arnold Strongman</td>
<td>12</td>
</tr>
<tr>
<td>Will Pay IV Plus Revive Foreign Investment?</td>
<td>13</td>
</tr>
<tr>
<td>In Attendance at NSTA Convention</td>
<td>14</td>
</tr>
<tr>
<td>Report of Public Relations Committee</td>
<td>15</td>
</tr>
<tr>
<td>Report of Legislative Committee</td>
<td>16</td>
</tr>
<tr>
<td>Report of Elective Committee</td>
<td>17</td>
</tr>
<tr>
<td>NSTA Resolution Opposing Free Bill</td>
<td>18</td>
</tr>
<tr>
<td>Gold Winners at Convention</td>
<td>19</td>
</tr>
<tr>
<td>Wall Street Winners, Bowling Tourny Won by Detroit Team</td>
<td>20</td>
</tr>
</tbody>
</table>

#### Index to Affiliates

<table>
<thead>
<tr>
<th>Affiliation</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama Security Dealers Association</td>
<td>21</td>
</tr>
<tr>
<td>Baltimore Security Dealers Association</td>
<td>22</td>
</tr>
<tr>
<td>Baltimore Security Dealers Association</td>
<td>23</td>
</tr>
<tr>
<td>Boston Security Dealers Association</td>
<td>24</td>
</tr>
<tr>
<td>Carolina, The Security Dealers Association</td>
<td>25</td>
</tr>
<tr>
<td>Chicago Bond Dealers Club of Chicago</td>
<td>26</td>
</tr>
<tr>
<td>Cleveland Security Dealers Association</td>
<td>27</td>
</tr>
<tr>
<td>Colorado Security Dealers Association</td>
<td>28</td>
</tr>
<tr>
<td>Connecticut, Security Dealers Assn.</td>
<td>29</td>
</tr>
<tr>
<td>Dallas Bond Club</td>
<td>30</td>
</tr>
<tr>
<td>Denver Bond Club</td>
<td>31</td>
</tr>
<tr>
<td>Detroit &amp; Michigan, Security Dealers Association</td>
<td>32</td>
</tr>
<tr>
<td>Florida Security Dealers Association</td>
<td>33</td>
</tr>
<tr>
<td>Georgia Security Dealers Association</td>
<td>34</td>
</tr>
<tr>
<td>Georgia Security Dealers Association</td>
<td>35</td>
</tr>
<tr>
<td>Houston Security Dealers Association</td>
<td>36</td>
</tr>
<tr>
<td>Kansas City (Missouri), Bond Dealers Club of</td>
<td>37</td>
</tr>
<tr>
<td>Los Angeles, Security Dealers Assn.</td>
<td>38</td>
</tr>
<tr>
<td>Louisville Bond Club</td>
<td>39</td>
</tr>
<tr>
<td>Memphis Security Dealers Club</td>
<td>40</td>
</tr>
<tr>
<td>Nashville Security Dealers Association</td>
<td>41</td>
</tr>
<tr>
<td>New Orleans Security Dealers Association</td>
<td>42</td>
</tr>
<tr>
<td>Nashville Security Dealers Association</td>
<td>43</td>
</tr>
<tr>
<td>New York Security Dealers Association</td>
<td>44</td>
</tr>
<tr>
<td>National Security Dealers Association</td>
<td>45</td>
</tr>
<tr>
<td>New York Security Dealers Association</td>
<td>46</td>
</tr>
<tr>
<td>New York Security Dealers Association</td>
<td>47</td>
</tr>
<tr>
<td>Phoenix Security Dealers Association</td>
<td>48</td>
</tr>
<tr>
<td>Pittsburgh Security Dealers Association</td>
<td>49</td>
</tr>
<tr>
<td>Portland (Oregon), Bond Dealers Club of</td>
<td>50</td>
</tr>
<tr>
<td>Sioux City, Security Dealers Association</td>
<td>51</td>
</tr>
<tr>
<td>St. Louis, Security Dealers Club of</td>
<td>52</td>
</tr>
<tr>
<td>Seattle Security Dealers Association</td>
<td>53</td>
</tr>
<tr>
<td>San Francisco Security Dealers Association</td>
<td>54</td>
</tr>
<tr>
<td>Savannah Security Dealers Association</td>
<td>55</td>
</tr>
<tr>
<td>Syracuse, N. Y., Bond Club</td>
<td>56</td>
</tr>
<tr>
<td>Twin City Bond Dealers Club (Minneapolis)</td>
<td>57</td>
</tr>
<tr>
<td>St. Louis, Security Dealers Club of</td>
<td>58</td>
</tr>
<tr>
<td>Members of the NSTA Unaffiliated With Local Organizations</td>
<td>59</td>
</tr>
</tbody>
</table>

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**Thomas A. Akin**

**Deceased**

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<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>W. W. Grattenden</td>
<td>Grattenden &amp; Co., Chicago</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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The National Security Traders Association’s 1949 convention was a huge success. On behalf of the officers and other individuals responsible for this achievement.

Also, I extend to the Bond Club of Denver the sincere thanks of the Association for the cordial reception they gave all delegates during the Denver stop-over. This delightful interlude added much real pleasure to that section of the convention.

Aside from its signal success, I feel that this year’s convention was especially significant in that it was the first (except for a small war-time convention) in NSTA’s 16-year-old history to be sponsored solely by the national Association. It seems to me that this fact is indicative of greater cohesion and that it holds the promise of increased strength.

The National Security Traders Association’s 1949 convention was a huge success.

In accordance with its custom, The Commercial and Financial Chronicle cooperated wholeheartedly in making the 1949 convention a success. The Chronicle gave the convention splendid advance publicity and complete news coverage. Moreover, the Chronicle’s intensive solicitation of ads for the NSTA convention information, the Association of financial independence for another year. It is a genuine pleasure to extend to The Commercial and Financial Chronicle and its advertisers the sincere thanks of the Association.

As to the coming year, I am confident that it will be a successful one. I am confident because I know that I can rely upon the full cooperation of my able fellow officers and the Association’s 3,700 members. With such cooperation it is inevitable that NSTA will move forward in 1950 towards the twin goals of even better relationships among members and the greater good will of the interesting public.

H. FRANK BURKHOLDER, President National Security Traders Association

The Advertising Committee Extends Its Thanks

By HAROLD B. SMITH, Chairman, NSTA Advertising Committee

Again, our NSTA Convention Supplement of “The Commercial and Financial Chronicle” is presented, with a complete roster of members and officers of our 29 affiliates for 1949. This marks the 11th anniversary of this issue.

The dealers and traders, should be most grateful to Herbert D. Seibert, Editor and Publisher of the “Chronicle,” for his outstanding cooperation in presenting this supplement of real service to our fraternity. We cannot underestimate its value. With an ever-growing membership throughout the certificate of the security business, we need but peruse its pages and we reflect friendships established many years ago and now kept renewed in no small measure through this publication. Contacts are made and business commenced, too, as a consequence of its contents.

A few weeks ago we held our National Convention at Colorado Springs, Colo. Those in attendance realized more than ever before what an organization can do for its members, and the high regard other branches of the security business have for the National Security Traders Association.

The year 1949 is outstanding so far as our Committee is concerned because of the extent of the assistance received from so many of its national officers, and here we must lead off with “Thanks, Mort!” and that’s Mort Cayne, our National Secretary. Many of you recall the letter he got up to go to corporate officials bearing the caption “Are You in the Spot-Lite?” He really gave the “kick-off” for corporate ads, and the ball was carried by many of our local clubs as you will observe while reading this supplement. Your Advertising Committee must apologize for its inability to make a complete report of its activities, and we pause to say “sorry” to every one who extended himself to make this issue a success if his name has not been mentioned.

As you know, the 1949 Convention was sponsored by the National, and we, your Advertising Committee, feel responsible in a large degree for making this possible. The recent report shown in the statement and annual report of Henry Arnold, our Treasurer, came primarily as a consequence of the advertising which appeared in our Convention Supplement to the “Chronicle.”

For the first time 10% of our advertising is represented by space taken by corporations. Will you, our fellow members, remember to acknowledge their support? We all know these companies. We believe it mutually advantageous to corporations and dealers to be thus represented in our Convention Supplement to the “Chronicle.”

We recommend to the recently elected Executive Council that your Advertising Committee be appointed as soon as possible and a concerted and sincere effort be made to have companies whose securities we trade or distribute recognize the value of this annual convention issue of ours and support us by taking space therein.

And now let us all thank our co-workers, the solicitors of “The Commercial and Financial Chronicle,” Messrs. Beck, Murphy, Reilly and Strickland. A swell job, fellows! Your picture-taking and production of advertising throughout our nation is beyond our praise. The “Chronicle” staff cannot be forgotten as they actually have produced this beautiful souvenir. So thank you again.

Your complete Advertising Committee is listed below in order that those seeking further knowledge about its work and results may do so from them.

HAROLD B. SMITH, Chairman, NSTA Advertising Committee

Committee Members—In addition to Chairman Smith, the Advertising Committee consists of the following:


What Can Traders Do in a Rights Offering?

By HON. HARRY A. MCDONALD
Commissioner, Securities and Exchange Commission

Commissioner McDonald, pointing out anti-manipulative provisions of the Security and Exchange Acts apply to offerings of stock subscription rights, describes new methods of handling these offerings by underwriters and dealers. Explains limitations on price stabilization transactions and holds syndicate manager in purchasing rights must be careful not to create a rising or fictitious market. Says stabilization is hazardous activity and requires care, but that adaptability and flexibility to meet changing conditions should be aim of investment industry.

I have had little desire to come out here as a spokesman from Washington to tell you how to run your business. I think I know better than that.

Because you traders are really ready to talk about a subject which I believe to be a problem you live with almost every day. I am going to talk about warrant, or rights offering and manipulations.

The statutory restrictions which govern these distributions are simple in terms, but extremely complicated in application. They are the anti-manipulative provisions of the Securities Exchange Act of 1934. The provision pertinent to this discussion is Section 8 (a) (2) which declares it "unlawful for any person, directly or indirectly," and here I quote from the law: "To effect, alone or with one or more other persons, a series of transactions in any security registered on a national securities exchange..."


What I want to do tonight is outline the operation of each of these basic distribution methods and I will try to explain as best I can the respective functions of the manager and participating dealers.

Before doing that, let me describe briefly the old conventional method of underwriting as it used to be done prior to these innovations. I need not tell those of you who took part in them what high risks were involved. They could be. For the 15 or 30 day subscription period, the underwriter was on the hook while stockholders made up their minds whether or not to exercise their rights. The underwriter never knew how many shares he would finally get. He was forced to remain subject to market changes over a long period. An underwriter taking this responsibility, naturally, had to have compensation commensurate with the risk.

The old method is known as the participating dealers' plan, or the "Columbia Gas Plan." It was first used in a financing of that company last year. This type of plan does not comprehend an underwriting commitment and, although a manager is usually employed to supervise and control the distribution, he merely acts as an underwriting fee.

One way an underwriter could reduce his risk was by beginning to distribute stock during the subscription period. The danger here was that he might underestimate the subscription rate and find himself short.

This very thing did happen in several conspicuous cases. In one, which took place in the early summer of 1946 during the Columbia Gas offering, the underwriter had the choice of fixing an exercise price low enough to assure full subscription or paying the larger underwriting fee.

The participating dealers' plan is being used increasingly. In subsequent offerings it has undergone substantial modification. These changes appear in the distribution of New York State, for example, the "Columbia Gas" offering, was forced to cover about 40,000 shares at a two or three point loss. In another case an exchange of securities, the underwriter went short as a hedge against a falling market and found he had to pay a premium averaging three or four dollars in covering the cost of that "guarantee" was almost $200,000 to the underwriting group.

The risk, of course, is even more costly in a falling market, for then the underwriter in the conventional method has himself with all or nearly all of the stock unsold.

The Shields Plan

The Shields plan was formulated in late 1946 by a committee of the Investment Bankers Association following several rather disastrous rights offerings. The plan had caused large losses. In July, 1946 Willys-Overland offered 4% of its stock to subscribers to subscribe to 155,145 shares of $100 par value stock. Only 6,024 shares were subscribed for by the stockholders with the result that the market fell to the middle 60's. You may remember the Cincinnati Gas & Electric and Industrial Bond rights offerings, which had to be cut off to coincide with the Sept. 3, 1946, market break. In both instances the market price fell below the subscription price and, as a result, many stockholders were left holding the hands of underwriters at a time when the market price was considerably below the offering price.

The Shields plan permits underwriters, through the manager, to buy back any portion of the offering sold to stockholders. They may exercise these rights prior to subscription, and they may sell the security being underwritten before the expiration of the rights at a price consistent with the prevailing market for the security in question. The Shields plan is insurance against the underwriter having to take down a large block of a security at the expiration of the subscription period. The danger is that underwriters may be penalized if the market price of the stock has declined. It is essential that all purchases of rights be channelled through a man who is able to control the situation and to avoid members of the syndicate, or other stockholders, taking advantage of the situation. In one case where it was expected that there would be a large demand in the area where the company was located, the local underwriter, not the manager, purchased the rights, but they were sold at a substantial profit.

The participating dealer plan is an outgrowth of the Shields plan. The concept is the same. Gas proposed to offer an additional block of stock to common stockholders by means of rights. The amount of new equity to be raised was $12 million, or 10% of the market value of the stock. A stockholder who owned one share of stock had one right for every share he owned. Each right could be exercised to purchase one share of new stock at a price of $57 1/4. If an investor bought 1,000 rights at $10 each he could exercise them for 500 shares of stock at $57 1/4 each.

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Gold and World Recovery

BY MERRILL E. SHOUP*


Stressing importance of gold as monetary standard and its historical significance in promoting economic progress, Mr. Shoup contends there'll be no economic recovery until gold standard is restored throughout world. Says U.S. alone, of all nations, has power to restore sound world monetary system, and advocates: (1) abandonment of Bretton Woods Plan; (2) establishment of free gold market; (3) making U.S. currency freely and completely convertible into gold, and (4) tying all leading currencies to gold on dollar value basis. Urges higher price for gold.

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*An address by Mr. Shoup at the National Security Traders Association Convention, Colorado Springs, Colo., Oct. 7, 1949.

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Guaranteed Local Housing Bonds

By WILLIAM G. LAEMMEL*
Vice-President, Chemical Bank & Trust Company, New York

After reviewing legislation leading up to the recent Housing Act enacted by Congress, Mr. Laemmel describes probable nature of Federal guaranteed housing bonds, which will be issued by local housing agencies. Holders bonds will create widespread investor interest, and billions of such bonds may come on market in next few years. Foresees fullest use of investment machinery in distribution of the new guaranteed housing bonds.

agency bonds which may come to the market.

Progress of Housing Legislation

This puts me in the middle of my story, so we will now go back to the passage of the original United States Housing Act of 1937. Furthermore, we do not as yet have a program in operation under the Housing Act of 1949, but since the past is often prologue, it will be my endeavor to cover the past, present and future by combining some known facts ahead of speculative anticipation.

To carry out the purposes of the original United States Housing Act, Congress created therein the United States Housing Authority as a corporate instrumentality of the Federal Government. The power, functions and duties of this Authority are now being administered by the Public Housing Administration. Congress charged this instrumentality with the responsibility of carrying out the authorized program, gave it authority to loan money to local housing agencies with which to plan and finance the cost of constructing new housing projects and the accompanying cost of eliminating slum areas. This authority to lend money included the power to take up bonds of these housing agencies, in an amount not in excess of 90% of the cost of projects constructed. The Authority was also provided with the means for borrowing the money it was to loan. It was authorized to issue its own obligations which would carry the unconditional guarantee of the Federal Government as to the payment of both principal and interest. Congress likewise authorized this Authority to make annual cash contributions in furtherance of the production of low rentals. Congress likewise prescribed an effective double use for these annual contributions by requiring that they be pledged to the payment of the bonds issued by the local agencies receiving the same. These payments were in fact equivalent, or substantially equivalent, to debt service on the bonds of the local agencies sold to the public, and accordingly contributed substantially to rent reduction. Along with this financial assistance, the Congress carefully prescribed a policing power by requiring that the payment of cash annual contributions by the Authority be conditioned upon good performance by the local agencies in the operation of their projects so that the very purposes of the Act would not be circumvented. These conditions precedent to the payment of the annual contributions resulted in the "escape clauses" existing with respect to the bonds outstanding in today's market. The elimination of these contingencies from bonds of housing projects of the future will be discussed later.

The next step toward fulfillment of the purposes of the Housing Act was to find places requiring Federal assistance and local agencies to carry out the slum clearance, low-rent housing projects. The slum areas were readily discoverable, but the local agencies to carry out the program were substantially nonexistent. For the most part, slums naturally developed in over-populated areas, pointing the finger toward the cities as the bodies to be dealt with. Cities, on the other hand, as political subdivisions of their respective states, may only perform functions which are authorized or directed by their charters, or state laws, most of which were inadequate to permit effective dealing with the slum problem. Thus the states were called upon to pass what might here be described as companion legislation which would permit cities and other appropriate subdivisions to create housing agencies. Many states acted at the earliest opportunity, others followed from time to time over the years. These state laws provided the implement through which political subdivisions could bring into existence housing agencies and authorized such housing agencies to contract for financial assistance from the Federal Government. Such laws also permitted the exemption of project properties of these local housing agencies from local taxation. The purpose of such tax exemption was to conform with the Federal statute which required the local contributions through such property tax exemption, or otherwise, at least equal annually to 20% of the amount contributed as subsidies. The Federal Government, such state legislation also authorized local housing agencies to create debt in an amount sufficient to cover their entire capital outlay on the low-rent housing projects and the related slum elimination. Furthermore, since this Legislation was essentially a landscape, it is from the state that the powers of the Federal local agency's board of trustees equals the cost of the project.

(Continued on page 68)


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The Equity Share as an Inflation Hedge
Recent European and American Results

By A. Wilfred May

Emphasizing the divergence between the worldwide status of the investor and that of the investment industry, Mr. May details and analyzes the recent comparative performance record in Europe and the U. S. of the equity share in affording protection against currency depreciation. Shows French equities, after rural land-holding and gold have acted most favorably, with relatively “unseasoned” American shares lagging. Concludes equity securities have in all countries afforded some, but by no means complete, protection—at any rate sufficient to necessitate portfolio inclusion.

The price of government obligations has declined by 3%, with the yield very slightly higher. The price of gold since 1944, when the information became available, has just kept pace with the rise in common stocks.

Switzerland
In Switzerland, that capitalist oasis and seemingly permanent haven of refuge for refugee capital, the equity share—currency deprecation record has been similar to that of the “soft” franc. Since 1938 the cost of living in this hard-currency land rose by 60% (versus 90% in the U. S.), but Swiss industrial common stocks gained only 19%. The price of Federal bonds rose by about 5%, with a 10% decrease in their yield (owing to lower coupon rates).

The Swiss stockholder thus has had the return of about 40% through the decline in the value of his franc.

British Experience
The comparable performance here in Britain is particularly interesting as it is both because of the London “City’s” activity, decline similar to Wall Street, and also because of the impact of repercussions from the Labor Government’s accession to power in 1945, with its analogy to the “Welfare – Stalins.” Following are indexes of the cost of living, and of industrial equity share index prices (based on 1914 equaling 100 in both cases):

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost of Living</th>
<th>Indust. Equities</th>
<th>Yield on Consols.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>156</td>
<td>138</td>
<td>3.9</td>
</tr>
<tr>
<td>1939</td>
<td>158</td>
<td>136</td>
<td>3.15</td>
</tr>
<tr>
<td>1940</td>
<td>159</td>
<td>138</td>
<td>3.8</td>
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<tr>
<td>1941</td>
<td>159</td>
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<td>151</td>
<td>3.9</td>
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<tr>
<td>1943</td>
<td>203</td>
<td>150</td>
<td>2.2</td>
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<tr>
<td>1944</td>
<td>202</td>
<td>149</td>
<td>1.7</td>
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<tr>
<td>1945</td>
<td>203</td>
<td>149</td>
<td>2.1</td>
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<tr>
<td>1946</td>
<td>204</td>
<td>148</td>
<td>2.15</td>
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<td>148</td>
<td>2.15</td>
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<tr>
<td>1948</td>
<td>214</td>
<td>222</td>
<td>3.6</td>
</tr>
<tr>
<td>1949</td>
<td>214</td>
<td>145</td>
<td>3.7</td>
</tr>
</tbody>
</table>

(Continued on page 67)
The Business and Market Outlook

By ANTHONY GAUBIS
Investment Counselor

Investment analyst expects further rise in stock prices, but sees danger of nearby cyclical peak in the 190-210 zone of the Dow-Jones Industrial Average. Believes outlook for foreign trade and satisfaction of pent-up demands form a basis for possible downward spiral in business activity and stock prices during 1950.

Implications of the "Rolling Readjustment"
A fall in stock prices by any other economist, we have been witnessing a "rolling readjustment" in business during the past three years. This was particularly noticeable in the radio business in 1947, the motion picture industry in 1948, and in textiles this year. These readjustments did not result in a general downward spiral or "recession" in the meaning of that term. (Evidence in support of this statement may be found in the Department of Commerce statistics which show that aggregate personal incomes during the first seven months of this year were above the record-breaking level of the corresponding period in 1946; the average selling rate of automobiles and motor vehicles, and the maintenance of steel production as at or above 80% of rated capacity in each of the first three quarters -- a level which was never achieved in any previous "business recession" in prevar years.)

We believe that no one should have been surprised that declines in employment in any industry have been led, so far, by the normal economic sequences of reperussions in a gradual spiral of the type established in the first instance. As I pointed out in a talk before the Association of Commerce's Brokers in November, 1947 (see the "Chronicle" of Nov. 30, 1947): "It is by far the easier task to forecast how we can get a downward spiral in business activity as long as these cyclical industries (building, automobiles, heavy industrial and electrical equipment, and road and railroad equipment) appear likely to operate at a high level, and as long as we continue to export, on balance, at least five or six times the average rate of exports in the 28's and 30's." In light of recent developments, does it not seem unwise to be as confident of a well sustained level of overall business activity as it appeared reasonable to expect in 1947 and 1948? In spite of the decline in the stock market during the third quarter of 1946?

The very healthy readjustments in inventories during the first half of this year will undoubtedly cushion the declines in business (in profits) which we believe are in prospect for 1950. However, declines in operations in some of our highly cyclical industries appear to be almost inevitable, barring only a very substantial further increase in expenditures for armaments. In that event, the outlook for a sizable increase in tax rates, plus the trend toward lower profit margins, would still spell trouble for the stock market.

The Business Outlook
Before examining the outlook for business activity and corporate earnings in detail, it might be in order first to analyze just what is behind the recovery in new orders during the past three months. The most important factor has been, of course, the necessity of replacing any goods which have been bought up and sold, once inventories had been worked off to a minimum level. The unwillingness of suppliers to keep their inventories at the firm and turn, at the same or lower levels during the earlier stages of the postwar boom, has not changed any basic fundamentals.

The Business Outlook
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Europe on the Sales Counter

By MELCHIOR PALY

Dr. Palyi, in commenting on effect of currency devaluations, points out lowering of prices of European goods "will not do the trick," unless larger and less costly industrial production results. Says Britain is unable to produce and deliver greater quantities of goods, and, even if our British imports increase, U. S. producers will lower domestic prices to meet the competition. Cites former statement of Sir Stafford Crags that devaluation will be disastrous to Britain. Holds outlook for other devaluation countries is no better and contains immediate impact on U. S. will be some loss in export markets, but points out lower priced imported raw materials will benefit us. Concludes dollar will have to support pound in new role.

Prices Alone Do Not Do Trick

Little very attention has been given to the fact that prices alone do not do the trick. The problem is production and marketing in Britain. They have to use workers and the profits going. It is one thing to sell goos on a bargain counter, where demand is available, possibi- on this side of the Atlantic, and another thing to take in new goods in an effective way. Step- ping up production is a much slower process in Britain than in our country, and especially slow under the impact of large unex- pected orders. The British indust- rialist is caught in a highly nes- sary and discouraging maze of red tape that stymies every initiative. And he was as little prepared for a de- valuation as anybody else was.

As the worker, for that mat- ter. It was not an easy job to freeze, the workers will have no incentive. If they rise, and costs go up ap- preciably, or— if as it is certain— the Labor Government reinsti- cates the excess profits tax (or if both things happen), business will be all negative.

Moreover, there is the market- ing problem. Britain's output is not as it was in the days of the pound against the dollar does not mean necessarily that the British pro- ducer will rush into the dollar market. He is interested in pounds, not in dollars, not be- cause he prefers the pound to the dollar, but because he does not get dollars anyway. They have to be earned by the sweat of the back of the Bank of England.

The prime question of the British exporter is not how his dollar price is af- fected by the devaluation, but by how his pound price is affected. If he produces, say, woolens, and the pound goes down in value all over the world, as it does in vary- ing degrees—with exceptions, mostly within the British Empire,—the amount of pounds the pro- 

Dr. Melchior Palyi, of the University of London, has, for some time, been a vocal opponent of the devaluation of the pound. The argument is, that in many cases he might as well sell at home, if domestic prices rise, too. And they must rise. Moreover, and that is the sig- nificant point, his profits (in pounds) may be greater if he does not lower the dollar price of his product at all.

In short, even if the devaluations would produce a reduction of the export price level of Britain, the British would not and could not flood the world markets, least of all the markets of the dollar world. But of course the effect of devaluation will not be a 30% reduction of their dollar prices. It will be much less. The estimate is that perhaps an average of 10% to 20% reduction vis-a-vis the United States would come about. That leads to another aspect of the question.

Whether the price reductions in the American markets amount to 10% or 20%, or more, it would take more than a year or two for the equal amount hike in the physical volume of exports merely to earn as many dollars as they earned at the previ- ous higher valuation of the pound. If they sell us automo- biles 30% cheaper than before, they would have to sell about 44% more of them to earn just the same amount of dollars as before. In other words, the dollar position of Britain is not improved, although her competitive position has been increased, because the volume of sales do not amount to more than the percentage equivalent of sales to the percentage decline of the value of the pound sterling.

Will They Sell Us More Goods?

Now, then, the question is, will they sell more units than in propor- tion to the dollar price cut (if any)? Which amounts to asking, how elastic is the Amer- ican demand for British goods. Will it rise in the same propor- tion as prices go down, always assuming that British prices do go down substantially for export purposes, and will stay down for a while? Or will it rise more, or less, than in line with the decline in dollar prices of the commodity at stake? Of course, there is no cut and dried answer to the question. It will vary not only by commodities, but also by coun- tries. For example, in Canada there will be a substantially greater rise of demand for British goods if their prices fall than in the United States, because the Canadian is better acquainted with them and likes them more. Also, he has something of a non- economic incentive to buy British goods. Many British commodities would not sell much better in this country at a 10, 20 or even 30% cheaper price than they did before. As a matter of fact, having been overcharged, he is not likely to buy them. But if prices do come down, we will have to compete with him, and that is the American demand is—that is, the

more we buy at cheaper prices than we would have bought at higher prices. More string, will the British competition make it self-effective?

But that, however, the pressure on our system will be en- hanced accordingly and probably show in some of our prices to the competition. In any case, we would not buy a great many more Austin cars if they fall in price by, say, 20%, which is the most that may be expected. Most Americans would not change their car-owning and car-running habits. But if they did, if many people were to sell their old Fords and acquire new Austins (a fa- natic example), well then nothing better could be wanted. The re- sult would be, you can rely on that, that Mr. Ford would lower the price of his output. We are not a cartelized country, much less so, indeed, than most Euro- pean countries. We are very competitive and ready to give up profits if we have to. The Ameri- can competition would soon be- come effective. In some commodi- ties the profit margin is so narrow that any effective competition could not be met. But that is excep- tionally so far as manufactured products are concerned. Briefly, the bargain counter would not last long.

One more point occurs to me— still assuming that the devalua- tion is a cut and dried answer. It does not remain effective for some time. What about the competitors of Britain who have also devalued? They are not producers; few things have which operating in this market from the other devaluating countries, such as France and Germany, Belgium and Italy. Even, if Japan is not permitted to devalue, German de- valuation is around the corner. The British producer would lose cents to the mark, it is supposed to be reduced to 20 cents to the mark or so.

All of which adds up to a very short-sight bargain counter. But even that is doubtful, disregarding exceptions, because of the effects of devaluation on domestic costs and prices in Great Britain.

Sir Stafford Cripps' Change

To extinguish the currency speculation coming from the (Continued on page 58)
Tax Deductions for Worthless Securities

By HERBERT ARNOLD STRANGMAN
Tax Accountant, Los Angeles, Calif.

Tax accountant explains terms and procedures under which deduction from individual income taxes may be permitted on account of securities becoming worthless. Points out losses must be taken in year securities become valueless, and period for filing claim is limited to seven years. Cites examples of loss deductions.

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Cost of stock $10,000
Deduct: Liquidating dividend of $3 per share
= $9,000

Adjusted Cost Basis

Loss

$7,000

The stock would be regarded as held from April 15, 1944, to Dec. 31, 1947. The loss, therefore, is "long-term," and only 50% of $7,000, or $3,500, can be taken into account in computing the taxpayer’s “Net Capital Gain” or “Net Capital Loss” for the year 1947.

Under the provisions of the Revenue Act of 1942, the period of limitation for worthless securities was extended from three to seven years. Accordingly, timely claims for refund in respect of securities which became worthless as far back as 1945 may be made up to March 31, 1950. Also, under this provision, if deductions for worthless securities have been made in prior years, but were disallowed on the grounds that worthless took place in some other year, refund claims may be made for the year of worthless securities were established, provided, of course, the seven-year period limitation has not expired. For example, a taxpayer claimed deduction for worthless securities in his 1944 income tax return, which was disallowed on the grounds that they became worthless in 1945. In this case, the period of limitation has not run, and the taxpayer may file an amended claim for refund in respect of a prior year, however, it is important, first, toascertain that the loss was paid in that year against which the refund could apply.

Where a deduction for worthless securities has been sustained, and the taxpayer receives cash in respect of such securities, the amount received must be included in income for the year in which it is received.

Also, it may be shown that there was no reduction in the amount of income tax paid as a result of the deduction for worthless securities for the year the deduction was claimed.

Example:

A taxpayer has gross income of $6,500 for the year 1949. During 1949, securities which were held at cost basis of $2,000, proved to be worthless. If the taxpayer’s “Net Capital Gain” or “Net Capital Loss” for the year 1949, was $1,500, an additional deduction of $1,000 would be permitted. Thus, the taxpayer would have $2,500 available for use during the tax year 1949.

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including other
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or as a
gross income, limited to $1,000 for
and rates.

Loss from worthless
in the year
where such
in the
and/or as a deduction
in
worthless
one-third

Basis of Computing Losses

Losses must be computed on the cost, or other basis, of securities. Where securities are acquired under a will, the basis is the market value at death of the decedent. Where securities are acquired by gift, in order to establish a loss, the basis is the cost of the property at date of gift—whichsoever is the lower. Any adjustments to the cost basis, such as liquidating dividends, must be taken into account.

Example:

Taxpayer purchased 1,000 shares on April 15, 1944, for which he paid $10,000. On March 31, 1946, he received a liquidating dividend of $3 per share. The stock became worthless on Sept. 23, 1947.

Deduction: Liquidating value at date of gift $10,000-

None

Taxable Income None
Will Point IV Plan Revive Foreign Investment?

By A. M. SAKOLSKI

Dr. Sakolski, calling attention to the almost universal approval of the broad terms of President Truman's Point IV Program, contends that our present creditor nation position and large export surplus must logically lead to capital placement abroad. Explains reasons for British export of capital in 19th century and its reversal. Sees no immediate prospect for renewal of large markets in U. S. for foreign securities because of current low prices of domestic equities and the still more current unfavorable climate for foreign investments. Warns foreign investments should be made primarily on sound business basis.

The novelty of Government guarantees as is now well known, it is proposed under the Truman bold Point IV Program, to encourage or stimulate the placing of private capital abroad by furnishing limited guaranteed against losses arising from certain risks and contingencies. Among these risks to be covered are those relating to exchange fluctuations, embargoes on capital movements, and confiscations or similar acts by political authorities abroad. Nothing definite along these lines has yet been determined, but it appears that no guarantee of profits or a minimum return on capital is contemplated. Certainly, even in its limited application, such as a system of government guarantee is probably not sufficient. Following the First World War, Great Britain and several other European countries, in order to stimulate exports and recover foreign markets for their products, fostered plans of guaranteeing foreign mercantile credits. But the outright guarantee of private capital commitments abroad was never undertaken. In fact, the investment of funds abroad by European nations at that time was discouraged under the stimulus created by political action. The only exception appears to be the Austrian Reconstruction loan of 1923, which was severally guaranteed by eight European na- tions, all members of the ill fated League of Nations. At that time funds were needed at home for reconstruction and development rather than abroad. It was in this period that the United States became the main source of new capital, particularly for Europe and South America.

The important point to be borne in mind in connection with the proposed government guarantee is that it applies to capital placed in non-govern- ment undertakings. In fact, indeed, the novelty of the proposal and its considerable historical significance, in that it is a complete reversal of the old mercan-

(Continued on page 68)
Report of Public Relations Committee

John M. Hudson, reporting for Collins L. Macroe, Jr., the Chairman, absent on account of illness, says the Committee has broadened its activities to reach regulatory authorities as well as public, business executives and newspapers. Praises cooperation of press and improved caliber of advertising copy. Endorses study of over-the-counter securities market and concludes much work is still to be done.

of our members, the public, and business executives, but also attempted to carry our story to those serving in a regulatory capacity.

A somewhat expanded group of representatives this year attended the Third Annual Dinner in honor of the Securities and Exchange Commission, tendered by NSTA at the Hotel Carlton in Washington, D. C., on April 20, 1949. This dinner was dedicated to moving us all along the road to mutual understanding and appreciation. Copies of the dinner program were widely distributed.

Members of your group have met frequently through the year with members of the Commission and staff of the SEC. It is a great pleasure to have two of the present four Commissioners, attending this convention, guest, participating in our activities.

In general, the feeling prevails that this policy of attempting to reach a mutual understanding should continue. The rules under which we operate are largely a matter of law and our recourse is in good legislation. Your Committee wishes to emphasize the work of the Legislative Committee in this direction, particularly as the "Frear Bill." Exhibit "A" is an excellent example of a local affiliate's legislative endeavor.

Business executives have undoubtedly become increasingly conscious of NSTA and its affiliates this year. Exhibits "B," "C," "D" and "E" indicate the manner in which some locals have secured the cooperation of corporation executives in their area. Also, this year, for the first time, NSTA and affiliates have solicited cooperation to appear in the Convention Issue of "The Commercial and Financial Chronicle.

Regardless of the degree of success in this campaign, corporation officers have become NSTA conscious.

Your Committee and fellow members have tried to work with newspapers and other publications in the way that the word of an article will not be adverse to our business, or if something adverse does appear, an attempt is made to refute same. (See Exhibit "F").

The press throughout the year has been cooperative in carrying news items covering activities participated in by our members. We refer particularly to merchandising and educational efforts at home shows, investor classes and other gatherings attended by the public.

The "trade" papers have as usual cooperated in carrying educational articles contributed by our members. Their editors have also made some worthwhile contributions. An article, "When Should a Stock Be Listed?" by your Vice-Chairman, and "The Opportunity in Unlisted Securities," by Raymond Trigger, were reprinted from "The Investors' Digest" and mailed to each member of NSTA. A second educational article, "Why Should a Subscription Privilege Be Serv¬

Grate. Gratitude is apparent cur¬

rently in the "Digest." Reprints are available.

The college of advertising copy used by many investment houses has improved substantially in the past year. The current trend has been away from so-called "tombstone" ads and is designed to attract investor interest by offering educational opportunity.

An outstanding series, "Lost We Forget," has recently been published in newspapers in Ohio by the Ohio Company of Columbus.

The Public Relations Committee wishes to endorse "The Wharton School Survey." This study of the over-the-counter securities market will be extremely beneficial to the public and to the whole investment fraternity. Your cooperation is necessary.

In closing, we can only emphasize that public relations work must continue in our Association.

We sincerely regret the sudden illness of Collins Macroe, Chairman of your Committee. This un¬

timely event delayed the activing of our affairs.

We wish to thank the officers and members for their cooperation and the opportunity to assist in the work of this group.

Respectfully submitted,
PUBLIC RELATIONS COMMITTEE

Collins L. Macroe, Jr. (Chairman)
Wulff, Hansen & Co.
San Francisco
John M. Hudson (Vice-Chairman)
Thayer, Baker & Co.,
Philadelphia
Jean E. Bennett
Jean E. Bennett & Co.,
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EXHIBIT "A"

Dayton Beach, Fla.
Sept. 29, 1949.

Mr. John M. Hudson,
Vice-Chairman,
Public Relations Committee,
National Security Traders Assn.,
Thayer, Baker & Co.,
Commercial Trust Bldg.,
Philadelphia 2, Pa.

Dear Mr. Hudson:

I have your letter of Sept. 29 relative to your desire to have a report from each affiliate in connection with your work for the Bankers' Association and the Bar Association of your own. I am writing you this letter to give you a report from each affiliate in connection with a public relations nature.

Our primary work along these lines has consisted of the following:

This category, is the inauguration of a legislative program which is designed for the mutual benefit of both parties to the investor, in our opinion. We have done a considerable amount of work along educational lines to further the passage of a President Man Law in the State of Florida. Members of our Association have met during the past year with the Bankers' Association and the Bar Association of our own. We have met with the Governor of our State and the Bankers' Association to accomplish this purpose. We have met with the Governor of our State and the Bar Association of our own. We have met with the Governor of our State and the Bankers' Association to accomplish this purpose.

We were very favorably received and the Bankers' Association prepared as an act of legislation to be introduced in the 1949 session of our Legislature. Unfortunately, this legislation did not get through the respective Committees during the present session, but it is our intention to continue our educational efforts in a vigorous manner with the hope of achieving the passage of this law at the next regular session of Legislature.

We also introduced a General Revenue Act for municipal financing, which was prepared by Robie Mitchell of the firm of Mitchell & Pershing of New York City, and a bill to legalize the investment of revenue certificates by banks and trust accounts. Members of our Legislative and Municipal Committees put a great deal of work on these situations and both of these bills were approved by the various Committees but, unfortunately, did not reach the floor of the House of Representatives in the General Assembly of the State of New York.

The status of the General Assembly of the State of New York at the time of this letter is that of the regular session and it is our intention to continue our educational efforts in a vigorous manner with the hope of achieving the passage of this law at the next regular session of Legislature.

In closing, we can only emphasize that public relations work must continue in our Association.

We sincerely regret the sudden illness of Collins Macroe, Chairman of your Committee. This untimely event delayed the activating of our affairs.

We wish to thank the officers and members for their cooperation and the opportunity to assist in the work of this group.

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Kansas City
Nielen B. Van Arsdale
Byth & Co., Inc., Los Angeles
Report of Municipal Committee

Rusell M. Ergood, Chairman, notes increase of municipal bond men in NSTA. Says only legislative question had to do with Housing Act of 1949 and predicts considerable activity by dealers in distributing new housing bonds.

Russell M. Ergood of Strand & Co., Philadelphia, chairman of the NSTA Municipal Committee, delivered the following report at the convention meeting this year at Colorado Springs:

As chairman of the Municipal Committee, I am happy to report that this year has witnessed another progressive and business-like organization of the Municipal Committee, and that not only has it continued to function as in the past, but it has performed its functions in a more effective manner.

While the number of Municipal Committee members has increased, the committee has maintained its integrity and its ability to function effectively. The committee has continued to provide leadership in the promotion of the Municipal industry, and has demonstrated its ability to make a significant contribution to the advancement of the Municipal industry.

A significant development in the past year has been the growing interest of Municipal Committee members in the Municipal industry, and in the economy of the country. The committee has continued to be an important force in the promotion of the Municipal industry, and has played a significant role in the development of the Municipal industry.

The committee has also continued to play an important role in the promotion of the Municipal industry, and has demonstrated its ability to make a significant contribution to the advancement of the Municipal industry.

In conclusion, I would like to express my appreciation to the members of the Municipal Committee, and to the leaders of the Municipal industry, for their continued support and for their contributions to the advancement of the Municipal industry.

R. M. Ergood, Jr.
Chairman Municipal Committee

Report of Legislative Committee

Chairman J. L. Quigley, in commenting on lack of constructive legislation to relieve strains and stresses to which the national economy is being subjected, says securities industry has permitted itself to become a political football, and urges militant steps be taken to combat it. Attacks Frear Bill as attempt to "raid the over-the-counter market."

COLORADO SPRINGS, CO. Following is the text of the report of the Legislative Committee submitted by Chairman J. L. Quigley, at the convention meeting on April 27.

The year 1949 from a National Legislative standpoint has been the more political rather than of national reconstruction and strengthening.

The terrific political forces engendered by the various political groups, each seeking advantage at the expense of the others, does not create an atmosphere in which real constructive legislation can receive the care and attention that it needs to give to its business.

Let it be said at the outset that we are not against political parties as such, but rather than the political party system as it is now being used to control our government.

The party in power is not necessarily the party in control of the government, and the party out of power is not necessarily the party against the government.

To be really effective, the party in power must be able to carry out the policies it has been elected to carry out, and the party out of power must be able to check the policies of the party in power.

The party in power must be able to get the laws it wants passed, and the party out of power must be able to stop the laws it does not want passed.

Let it be said at the outset that we have been placed in a government of the people, by the people, for the people, and that we should be able to work together for the benefit of the people.

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NSTA Elective Committee Makes First Report

In submitting nominations for officers of the Association for ensuing year, R. V. Mosley, Chairman of Nominating Committee, outlines its activities and recommends the committee of nomination of several new officers.

R. V. Mosley, Chairman Nominating Committee.

COLOMBO SPRINGS, COLO.—R. V. Mosley, chairman of the first Nominating Committee of the Association, announced that he has received the following names of officers since the last election.

Chairman, George H. Nash, Chicago; Secretary, Wm. K. Mordecai, New York; Treasurer, W. J. Taylor, San Francisco; Assistant Treasurer, W. H. Mason, St. Louis.

Additional officers to be elected at the next meeting of the Association.

NSTA Resolution Opposing Frear Bill

Convention, after adjourning, directs its Legislative Committee to confer with SEC and other national groups and Congressional committees to urge giving maximum protection to "Over-the-Counter Market." COLORADO SPRINGS, COLO.—The Convention of the National Security Traders Association, Inc., meeting at Colorado Springs, Col., on Oct. 8, passed the following resolution opposing passage of Senate Bill No. 2408, known as the Frear Bill:

On this day, the sixth of October, 1949,
Be it again Resolved, that the National Security Traders Association, Inc., in Convention assembled at Colorado Springs, Colorado, and from its inception has always been, in hearty accord with any and all legislation that will afford the maximum protection to the investors of our Country. Obviously what is good for the investing public is in our best interest.

Be it further Resolved, that Senate Bill No. 2408 (known as the Frear Bill) in its present form would lead the investor to believe that it is entirely in his interest, whereas in our considered judgment it contains provisions that will deal a crippling blow to the "Over-the-Counter Market" thereby definitely injuring the source that produces the major portion of the new capital requirements of our Country.

Therefore, Be it Resolved, that the National Security Traders Association, Inc., takes the position that it is definitely opposed to the Bill in its present form and its Legislative Committee be, and is hereby instructed, to confer with the Securities and Exchange Commission and its staff, other National groups interested and the Committees of the Congress to the end that final legislation afford the maximum protection to the American investor, and also the "Over-the-Counter Market," in its activities as the producing center and market, of new capital for the needs of the Nation.

In Attendance at NSTA Convention

(Continued from page 12)

COMBEST, EARL A., Prugh, Combest & Land, Inc., Kansas City
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*GIBBS, LOUIS A. Latid, Russel & Meeds, Philadelphia
*GRAHAM, THOMAS The Bankers Bond Co., Inc., Louisville
*GREEN, W. J. Pledger & Company, Inc., Los Angeles
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*HARRISON, H. J. Reinholtz & Gardner, St. Louis
*HALE, CHARLES W. Scherck, Richter Company, S. Louis
*HALL, JR., CLAIR S. Clair S. Hall & Company, Chicago
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*HANNAH, WOOD The Bankers Bond Co., Inc., Louisville
*HANN, ARTHUR B. Seitz & Tosike, Chicago
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*HASTINGS, H. RUSSELL C rowe Company, Detroit
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*HELD, JOHN C. Dempsey-Tegeler Co., Inc., New York
*HEIMRINGER, JOHN G. Walter, Woody & Heimerdinger, Cincinnati
*HENDERSON, THEODORE C. T. C. Henderson & Co., Des Moines
*HIGGINS, LARRY A. Hubbard, Warren & Chandler, Chicago
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Cable "STAMMA"
Report of Public Relations Committee

(Continued from page 14) this information may be of value to you in your Annual Report

With kindliest regards, I am

Sincerely yours,

T. NELSON O'ROURKE,
President Florida Security Dealers

Exhibit "B"

235 South Fifth Street
Louisville 2, Ky.
Sept. 21, 1946

Mr. John M. Hudson,
Thayer, Baker & Co.
Commercial Trust Bldg.,
Philadelphia 2, Pa.

Dear Mr. Hudson:

I received your letter of Sept 20 in regard to the activities of the Georgia Security Dealers Association pertaining to publicity in the year just passed.

Our local Publicity Committee has been quite active in a general way in obtaining items of interest about its member firms as well as its individual members and has succeeded in having these items published in the appropriate local newspaper or national publication. We have worked on the basis that the more a securities firm or an individual business was mentioned in the newspaper or a national periodical, the greater would be our public acceptance. We, therefore, used not only news items pertaining strictly to the securities business but personal items such as a member of the securities business being elected an officer of a private club or the Rotarians, etc.

I, as President of the Georgia Security Dealers Association last year, wrote a personal letter from this Association to the president of each corporation in Georgia whose stock was in the hands of the public. This personal letter was also sent to the presidents of corporations located outside of Georgia but who had large branches or plants in Georgia and whose securities were actively traded in Georgia or listed on the New York Stock Exchange.

In this letter I explained that the purpose of our Association was not only to promote the welfare of investors and the security business but also to promote the welfare of the corporations doing business in Georgia. We thoroughly recognize the security dealers and the investment public in Georgia would prosper only as long as business in Georgia was prospering. The Association offered them services to these corporations and told them we would be glad to work with them as a group in any way possible to protect their interests and to bat for them on any justifiable cause.

The replies to this letter were amazing.

In addition to the above, the Public Relations Committee has tried to work with the newspapers in such a way that the wording of any article will not be adverse to our industry or if an adverse article does appear, we have tried to diplomatically rectify same.

I hope this gives you the information you need and you are, of course, at liberty to use all or any part of it you wish in your report.

Yours very truly,

JACK F. GLENN

Exhibit "D"

Cincinnati 2, Ohio
Sept. 26, 1946

Mr. John M. Hudson,
Thayer, Baker & Co.,
Investment Bankers,
Commercial Trust Bldg.,
Philadelphia 2, Pa.

Dear Mr. Hudson:

One activity carried on by the Cincinnati Stock and Bond Club, which when it was originated was not intended as a public relations matter, turned out to be a very potential factor in public relations. It was the industrial inspections which our membership has been making for several years. It has been so successful in Cincinnati we feel that it is too good to keep to ourselves and while there has been some mention made of it I think that wider publicity will be beneficial to other clubs which might want to take it up.

We usually pick a corporation whose stock has some activity in the local market. The club generally furnishes transportation and our members try to arrive at a plant at a time which will allow us to make a trip that is not too hurried. After the physical inspection the club adjourns to some suitable place such as a hotel. There a brief cocktail hour and a buffet supper is served. The principal officers and some directors are invited to be our guests at this affair. They are then called upon to give a talk on their business, the problems confronting them, and business prospects. Members of the press are also invited. Sometimes they bring their photographers with them. The business meeting usually lasts no longer than an hour and the affair is over at a reasonable time so that the members can go home if they desire.

Besides acquainting our membership with the facts that go to make up the values behind these stock certificates, we have brought to the attention of industrialists that there is an investment fraternity here which is active and interested in trading their corporate issues and providing capital for American business. The publicity that gets in the paper also helps to acquaint the public with the fact that this industry is an important cog in the general scheme of things. We believe that there has been much good developed in the relationship between ourselves and these industrialists. They open the door for further information about themselves by inviting us to contact them if we want to know anything. There has been some underwriting that has resulted from these contacts.

We feel that these industrial inspections have made a terrific contribution to the increase in interest of our membership. We have been doing this in Cincinnati for three years. We now have a standing committee known as the Special Events Committee who are constantly exploring possibilities for additional inspections. In addition, we have booked the premises for a stockholders' meeting to have about six a year.

We would be happy to have any affiliates of the NSTA contact us to see what they want additional information.

Very truly yours,

J. E. BENNETT,
J. E. Bennett & Company, Inc.

Exhibit "E"

St. Louis, Mo.
Sept. 27, 1946

Mr. John M. Hudson,
Thayer, Baker & Co.,
Commercial Trust Bldg.,
Philadelphia 2, Pa.

Dear John:

I am in receipt of a letter Clarence Maenger received from you requesting any data that I might have in regard to the Public Relations work of the Security Traders Club of St. Louis.

This year we embarked on a program known as "Know Your St. Louis Industries." This program was designed to make personal inspection tours of leading industries in and around the St. Louis area that have securities outstanding in the hands of the general public. Our trips have met with tremendous success this year and our present plans are to expand and broaden this program for the coming year.

We also initiated a second program known as the "Educational" (Continued on page 70)
NSTA Affiliates and Members

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President: William A. Miller, Fairman & Co.
Vice-President: Jack H. Alexander, Walston, Hoffman & Goodwin.
Secretary: A. William McCready, Geiger, Co., Inc.
Treasurer: Ted D. Carlsen, Crossell, Weedon & Co.
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National Committee: Lawrence S. Pulliam, Weedes & Co.; John C. Hecht, Dempsey-Tejeler & Co.
Alternate: James D. Cockburn, Crossell, Weedon & Co.


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Secretary-Treasurer: A. D. Hogland, Brush, Slocumb & Co.


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BOWLING TOURNEY WON BY DETROIT TEAM

A bowling tournament at the Broadmoor Hotel during the NSTA Convention was won by the Detroit Team with a gross score of 2,441.

Members of the winning team were Paul I. Moreland, Moreland & Co.; Don Miller, Titus-Miller & Co.; Herman Tornga and Neil DeYoung, De Young-Tornga & Co., Grand Rapids, and Frank Meyer, First of Michigan Corporation. Members of the other teams competing were:


Gold and World Recovery

(Continued from page 7) each one of which was a relic of the dark ages. A major error in the Bretton Woods Plan was the freezing of the world's paper currencies at their inflated values. A natural law of demand and supply of the dollar value of gold, and the restoration of full and complete redemption and convertibility, the currencies of the rest of the world could be tied to gold on the actual dollar value basis, and a start made to bring about freedom of trade and commerce between all the world's nations. Halting the issuance of unlimited quantities of printing press paper money and unlimited quantities of credit would eventually stay the ever-increasing spiral of inflation which threatens to engulf us all. Nations would again have a common exchange denominator, gold, by which they could determine the exchange value of their goods and services in comparison with those of other nations. An orderly flow of commerce and trade could be resumed, and with it the chance to end misunderstanding, chaos and the threat of war. Will our governmental leaders accept this challenge to straighten up the world, or will they continue to stumble along, following political expediency? The responsibility is squarely in the hands of our national leaders. The people of the United States have the right to expect them to do what is best for our nation and not what will get votes and reelections.

What About the Price of Gold?

What is the price of gold? The wave of currency devaluations, set off by England slashing the pound value, has intensified the question as to what will happen to the price of gold now fixed by the United States Treasury at $35 per ounce.

History has a way of repeating itself. One fundamental must always be kept in mind. Debt accumulates faster than wealth and to offset this debt outstanding currency is from time to time devalued by increasing the price of gold. Through history the price of gold has constantly increased. It is interesting to record a study of the London gold price from the period 1250 to 1940 A. D. Starting with the year 1250, the price of gold per ounce was $17 shillings ($3.90). This was gradually raised following the Black Death Plague in 1349. It was increased again during the reign of King Edward IV when he debased the currency by clipping off the edges of coins to secure funds to carry on the War of Roses. It was increased again by Henry VIII to offset the expense of his luxurious courts. The price increased steadily until the Napoleonic Wars, when it was raised again to reduce the war debt. It decreased somewhat after the war, was then stabilized at $30.63 per ounce for many years and was raised to $35 per ounce in 1954, where it has remained to date.

After practically every great war, currency devaluation has been necessary to stay off a part of the loss of real values by fire, looting, property destruction, use of munitions, etc. Ancient kings devalued their currency by clipping bits from silver coins, while maintaining face value by decree. Modern nations have followed the same course by issuing paper printing press money, and if history means anything, the price of gold will sometime in the future again be raised. Gold has not been prized upward to keep pace with other commodities and services. To compensate for our present 60c dollar, its price should be increased in value proportionately. Raising the price of gold to $35 per ounce would give the United States a profit on the $24,600,000,000 gold we now own, valued at $35 per ounce, of $14 billion, and the other nations who own $9 billion, a profit of $5 billion of dollars. Politicians usually do what is politically expedient, and the possibility of a windfall of $14 billion will be most tempting, particularly when this vast sum can be realized without increasing taxes for taking steps distasteful to the electorate.
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Europe on the Sales Counter

(Continued from page 11)

office of Sir Stafford Cripps, published in January, 1948. Its content has been repeated time and again by Sir Stafford and his spokesmen. It says that devaluation is not desirable; actually, it would be disastrous, and gives three reasons for that, reasons which apply today as well as at the time when his announcement was made on the eve of the last French devaluation. (Did I say the last? I meant the one before the last one.) The British Government went out of its way (the pound was under pressure at the time) to make it clear to the French that it would not do them any good to devalue, arguments which afterwards were applied to the pound itself as late as Aug. 31, 1949. And 18 days later the pound went downhill, as you know.

The chief argument remains as valid now as it was then. What happens to costs in Britain, and to prices? Two elements enter the picture, namely wages and labor. Both raise extremely difficult questions from the point of view of devaluation policy. Some raw materials which we import may not be affected at all. Most of them, like non-ferrous metals, silver, wool, quinine, natural rubber, lumber and pulp, etc., may decline in dollar terms, but scarcely as much as 10%. But they are all, or most all, bound to rise in terms of pounds sterling. The British have to pay more pounds for the same quantity of metal, and we will pay less dollars. Some American industries will profit thereby, to say nothing about the American consumer, and our competitive position vs. Britain will be actually strengthened.

The raw materials of the Empire constitute its largest dollar-earning assets. Every sign indicates that major price reductions along these lines would not do Sir Stafford any good. The American demand for tin, as an example, depends on the price to a very moderate extent only. If we have a boom, we buy tin, and we are prepared to buy tin, cheap as it may be.

The cost of many basic raw materials constitutes only a small fraction of the price of the finished products. Differentials in the material price, such as 1/2 or even 1%, often do not affect the demand to any appreciable extent. But such raw materials happen to be a mainstay of the sterling area's balance of trade, accounting for more than two-thirds of its dollar exports. That is another reason why the pound will not fall, even temporarily, much strength from devaluation. Indeed, the major reason for the decay of the British balance of trade in the second quarter of this year and since, is the downturn in American business activity. With or without devaluation, the world depends on our boom. It is to this country having become absolutely vital to its own prosperity.

Effect of Devaluation on Gold Production

There is one raw material in the British Empire that will profit from the devaluation, to the benefit of the sterling area's dollar area. It is the one commodity that has a fixed price in the United States. I mean gold, of course. Gold producers in South Africa, Canada, and Australia will not receive more dollars, but the rise in the pound sterling price of gold will stimulate production, and it is estimated that an additional $200 million worth of yellow metal will be forthcoming. In all likelihood, most of it will find its way into Fort Knox, with some of it flowing into private hoards at higher than our official price.

But let us face the problem of British domestic prices. Inasmuch as at least partially the devaluation affects the British price structure, due to the increased demand for British goods from abroad, a great strain will develop on the British economy. To be effective, devaluation must create an impulse for more production. That is what happened back in 1931-32. When Washington officials speak of a stimulus to British production and exports created by the present maneuver, I am afraid they think in terms of 1931, not of 1949.

In 1931, when Britain was deep in the throes of unemployment, it was a different story. But presently, any major additional demand means a rising pressure on the domestic economy of Britain. Suppose her automobile industry would get many orders from this side. Just where would they get the workers to produce more cars?

British Unemployment Almost at Zero

There are at present 240,000 unemployed in Britain out of a total population of roughly 50,-000. That is no unemployment to speak of. To get more workmen, the British entrepreneur has but to draw on the supply already employed. One man has to hire the workers away from another plant. Of course, one might in...
crease production by intensifying the work and by lengthening the working hours, or by putting in new machinery. The latter would take some time, and could be very costly in view of the fact that the incentive is a temporary one. How could one go into a capital ex¬pansion if one does not know whether there will be a market left by the time the expansion has been completed? As to more intensified production and longer working hours, well, I have not heard any such concrete proposal for Britain, other than vague ad¬ministrations—nor for this country, for that matter.

British production cannot ex¬pand in the short run, and at the risk of boring you, I must repeat that Britain cannot deliver the goods in large additional quanti¬ties. Nothing to break the world markets can occur under such cir¬cumstances. That is the curse of their famous Full Employment. When they really need full em¬ployment and have a chance to accomplish it at economic ad¬vantage, they are stymied—be¬cause they have it already.

That brings me to the basic question—the wage level. When I was in England last June, the country was boiling with labor trouble. Many railroads were running Sundays according to cen¬tury-old rules, which meant that they were not running at all. Coal miners, the engineering in-

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(Continued from page 59)

pure and simple, with no regard paid to its long-run implications. In 1931, national pride was affected. Little or nothing of that kind seems to affect the mind or heart of present-day British socialists. Consequently, there is no morale-building appeal to the people present as there was in 1931, no appeal for sacrifice, for rallying to work more and accept more sacrifice. The public mind of Britain has become apathetic under the dulling influence of 20 years at a managed economy that lives on bureaucratic red tape and petty restrictions.

British wages are bound to rise, because the cost of living will rise, and that will boost export prices. That will end whatever advantage British exports may have gained by the devaluation. There is just no possible doubt about that. The question is only: how much and how fast, a question that touches on the fundamentals of British politics. It may suffice to say that the broad price in England has been hit inحجيج, and that the Labor government in London acquired its acquis inequalities in "some" wage hikes. But let me turn to another equally important but far less considered aspect of the problem.

On my last European trip, in May, I visited an old friend, the Governor of a Central Bank on the Continent. He predicted an early devaluation of the pound with absolute certainty. I tried to argue, saying that Sir Stafford is against devaluation, because domestic prices would be boosted. The answer was that prices have risen already in England. You know you cannot argue long with a central bank president; you just have to take his word. But I mentioned that in 1931 what saved Britain was the fact that the French capitalists who had run out of the pound, turned pronto on their heels and bought back their gold to London. They had run out before devaluation, in fear of its coming. Once it had occurred, all they could expect was that the pound would be revalued again. Incidentally, in 1931 the round was still one of the world's best currencies nationally as well as internationally, which it is not any longer. The answer was, with that superiority which is characteristic of Central Bank presidents—that is a race in itself; somebody ought to write a study about that—"I know the bankers; I live with them. The moment British devaluation comes, they will take their gold and put it out in pounds sterling." Well, I shall wait for that. I would like to see a Frenchman who takes out his gold on dollar bond and puts it in pounds sterling, although Sir Stafford made a nice little hint in his address Sunday night which many gold holders would not have missed, saying that if the devaluation turns out to have gone too far, he can revalue that. Of course, the short sellers of pounds must cover; they would be foolish if they did not. Mind you, they have sold the pound around $2.90 or $3.30, at the cheapest.

I have seen in Paris, in London, in Brussels, in New York and even in Chicago, vast quantities of pound sterling futures sold down to the river during this last Summer. Hundreds of millions of dollars must have been turned over by speculators who had the wisdom to be better judges of Sir Syl Cripps' serenity than I, for one, was.

Now, they have to turn around and to cover, which means a tremendous demand for pounds. Theoretically, the pound should go above the new par. That it does not, shows that either some people still expect further devaluation, or that too many pounds are floating around. Anyhow, nothing of the kind happens as in 1931, and I believe that I am not wrong in predicting that there will be no large-scale flow of capital into Britain. This latest maneuver will not save the pound, even if British exports should sky-rocket for a while. The improvement in the trade will not last. What is needed is a restoration of confidence that would permit capitalists, British and foreign, to invest in productive enterprises within the Empire. The new devaluation, bringing the pound down to one-fifth of its historic gold value, and the mockery made then of the financial trusteeship which a civilized government should hold, preclude the possibility of restoring confidence in Britain's will or ability to respect private property and contractual rights.

Other Devaluing Countries

The outlook is no different for most of the other devaluing countries. The French franc has been reduced by a few percentage points—from about 260 to 350 to the dollar—and the French bankers have managed to balance a budget unbalanced for 20 odd years, solemnly announced the determination to hold the new line. Next morning quotations on the free gold and exchange markets of Paris jumped. The dollar went up to 880 or so.

Belgium was the leader in the attack on the British pound, demanding its devaluation. Incidentally, I am informed by a most reliable source that the Belgian central bank president is virtually the American representative for the British government, with Mr. Harriman, our roving ambassador, I may add, in the interesting connecting link. The Belgian is the man who manages Hoffman. Hoffman talked to Snyder, Snyder persuaded Acheson and Acheson received Hoffman. Be that as it may, there is little doubt that we have forced the hand of Sir Stafford Cripps by threatening implicitly that further devaluation would bring about the demise of the dollar, and the devaluation and poverty. Economists have not been as reliable as the devaluations. Belgium, Italy and France have been working openly with monetary warfare. His resistance is understandable, in deed. (Some of his well-informed economists went so far as to claim that the pound ought to be revalued upward!) He realized that while British exports may go up, the country's bill for imports will rise more, and the deficit in the balance of trade will be enhanced. Everything Britain buys from the dollar sphere will cost 44% more than it did before. And Britain buys much more from than she sells to, the dollar world. The volume of her imports is compressed; it is reduced already, by physical quantities, near a level that cannot be impaired if full employment should be maintained. Also, he must have been aware of the prospect of a competitive devaluation race, and of the consequent turmoil in international trade, leaving aside the domestic conflicts which were bound to follow.

The British Financial mark a few weeks earlier offered an object lesson of what was to follow, if such a lesson was needed. Strikes crippled that last circus, the form of devaluation. The strike wave was bemoaned by the economists who, of course, did their best (or their worst) to fan it. But why did the noncommunist English workers obey the communist command, and why right after the devaluation?

But coming back to where we...
left off: Why were the Belgians, Italians and French so anxious that the British competitive position should be improved? To be sure, they did not expect much of a pound devaluation. The French minister's furious reaction—in public—is characteristic. Apparently he expected, as most people did, a $1.60 par for the pound. That was the general expectation. Very few people guessed $3.20. I do not know any one who would have foreseen that the pound would be reduced to the actual black market rate, which was the open market rate in Zurich. (As you know, now-a-days, the open market that is open is black.)

I would not be surprised if Sir Stafford, who is a very superior person, might have said to himself, "You have asked for it," meaning the Continentals.

At any rate, the new pound rate puts them in a quandary. The Belgians did not mean to go off par; and the French were satisfied to lose no more than 20 francs on the equivalent of 20 American dollars in the pound. But, in the opinion of one paper cent in the course of some 30-odd years. That would have been inefficient and, of course, they did not plan on slipping another 6%, at which time the French franc, feel the same way and are equally furious at Sir Stafford. The open market is doing a roaring business in a monetary jungle.

But just why did the Continental governments, and a definite pressure on devaluing the pound? They had two purposes.

The first reason was a very peculiar one. Britain has become a debtor nation, and no one wants to see a pound even to Italy. It is something to be held against theEmergent nations, and against the sterling balances just about the poorest country of its size in Western Europe. By the end of the war, the Belgians were owed the Italians some $200,000,000, which is more than their present pound $10,000,000, and not paying it. Here is how this new international idea of a pound that has nothing to do with the famous $14 billion wartime balances in Britain, came about.

It came about by way of the famous Marshall Plan commercial agreements. Britain would sell certain things to, and buy others from Italy. While the British bought Italian goods, the Italians would not buy British goods. The latter were too expensive—most British export articles are 20 to 25% above the world market level.

Now, in the Italian case; the Italian businessmen have the right to draw on the available pounds sterling, provided they buy something. But little could be sold at such inflated prices in Britain. So these bilateral agreements made the devaluation, effect, of frozen balances in London. The Latin countries, in particular, were very anxious to get the sterling they thought right that pound devaluation would make British goods cheaper for a while—for long enough to accomplish the purpose. I forgot to mention before that much of the decline of British prices will merely make up for the difference between the British and American levels, for the 20 or 30% difference which prevailed before the devaluation. It merely would put the British on a competitive basis, even without cutting the dollar prices appreciably.

The second and far more important reason of the Europeans, for which they insisted on pound devaluation, will not be achieved. They expected that pound devaluation would be accompanied by relaxing on the multitude of bureaucratic barriers, regulations and restrictions which surround the British Isles. Also, that this liberalization of trade policy, together with the restoring of realistic foreign exchange rates, would reopen the channels of international capital flow. That, especially, has been most emphatically predicted by my friend, the European central banker, to whom I have referred before. But nothing of the kind is in prospect for the near future, as the French franc, feel the same way and are equally furious at Sir Stafford. The open market is doing a roaring business in a monetary jungle.

Effect on American Economy

What will all this mean to the American economy? The immediate impact will be, of course, loss in export markets, increased American imports, and a definite pressure on domestic prices. What matters, however, is the somewhat longer run effect, such as over a period of a year. We are exporting a host of commodities at the rate of about $1.1 billion a month. About $600 million of this is given away free of charge, and you can be assured that we will not lose customers for things for which they do not have to pay. That leaves roughly $500 million of monthly exports exposed to enhanced competition.

Suppose that we insist on $1 billion of that, which is just about what the price cuts in British goods—by no means in all foreign competitive goods—might amount to. That would mean a billion, or let us say $1.5 billion lost in foreign trade, little more than ½ of 1% of our annual national output.

Of course, a cut of 20% in the competitors' prices may mean more than 20% decline in the volume of our sales. But on the other hand, you have to remember that inasmuch as the devaluing countries sell more in this country, and earn more dollars, they will buy more American goods, too. If Britain earns more U. S. dollars, she is likely to buy more Argentinian foods, hides, linseed, etc., to be paid in dollars, and the Argentineans will turn around at once and buy American products. In other words, it is most unlikely that we would lose $1 billion in the next 12 months' export trade, and I suggest that we will not lose that much.

As to the import side of the equation, most of our imports consist of raw materials, the majority of which will be highly beneficial not only to the American consumer, but also to the majority of American producers. Of our monthly imports of, say $5 billion, every $1 million worth could be raised in such a fashion as to mean a competitive disadvantage to American producers. In that same way the British imports of about $6 billion are competitive and I suggest they will not be.

The result is that the situation in the imported countries is growing more critical from year to year, even before the funds to finance them are exhausted. Obviously, they will be facing catastrophe when the Marshall Plan comes to the end of its rope. What if the devaluation does not help, as it most certainly will not?

We have forced Sir Stafford into devaluation, and turn forced devaluation or more exchange restrictions and import controls on the rest of the world.

We are responsible for the failure that will ensue, just as we have been made responsible for the failure of the Anglo-American loan in which we have devalued pound convertibility (that has been sabotaged by the British). That was followed by the Marshall Plan, and presently by the devaluation. The British will be in an excellent position to ask us to do something new, since the method which we have forced down their throats have turned out to be a fiasco. Their moral position in demanding more aid will be excellent, and it is understandable that Sir Stafford, the least looking statesman west of Moteley, returned to London with an unprecedented big smile on his face.

Actually, the British have asked for more dollars, not for devaluation. If not otherwise, the dollars were to come from devaluing—the dollar. But that could not possibly have been presented to Congress at this juncture. When, six or twelve months hence, Britain will be in a fresh crisis, the Administration is counting on Congress and point out that our British friends have done everything they could do. They tried austerity (at highest real incomes of their working population, all history), they have raised their production 50% above the prewar level (producing many things which no one buys), and raised their exports now much more than the

(Continued on page 62)
Europe on the Sales Counter: Palyi

(Continued from page 61) prewar normal (selling the excess to the sterling area that does not pay). On top of all that, they made the supreme “sacrifice” of committing hara-kiri on their own currency. It will be easy to sell Congress, given its average level of wisdom and integrity, on the idea that poor little Britain has to be helped from here on, and no strings attached. In the place of the Christmas bonous, so to speak, that we gave them so far, we will have to start on a new policy; we shall put her on the regular payroll.

In other words, the long-run outcome of this process is likely to be that the dollar will have to support the pound at the new rate. Which means that sooner or later the dollar itself will have to be devalued.

But I would like to close by pointing out one thing that seems to me to be essential. We are being sold more and more, and if we have not been sold already, on the idea that the world suffers from some sort of fundamental disequilibrium called the dollar shortage. Britain, in particular, through no fault of her own, is supposed to be a victim of this contagious anemic disease which the official and semi-official doctors know no other cure than the transfusion of more dollar plasma. It is my conviction that Britain is not subject to any fundamental nature. As a matter of fact, she is a very healthy country. All her apparent sickness is superficial. It is caused by an over-dose of sleeping pills called dollars, rather than by dollar shortage. At any rate, it could be cured very quickly—and by a single election.

The election is on hand, and if I am not very much mistaken—I had sworn last November not to forecast elections any more—it will come within three or four months. That is, or seems to be, the last chance for Labor to win it. And to win it by a heroic measure may have been the prime purpose of the Truman Administration, as well, who may have to say farewell to their little Welfare State if the big one over there should go on the rocks."

What Can Traders Do In a Rights Offering?

(Continued from page 6) kent for the stock, and since they had what appeared to be a readily salable commodity, they attempted to dispense with most of the cost of an underwriting. They proposed to adopt the rights purchasing feature of the Shields operation, but not to use any standby. Instead, brokers or dealers would be paid a commission for placing the stock. This commission could be earned by persuading an existing stockholder to subscribe, or by the purchase of rights for the owner’s account, plus a sale of the stock obtained by conversion of such rights. In this way they would only pay a fee on the shares actually placed. Our staff objected to the plan in that form because it would encourage dealers to bid against each other in the purchase of rights and would undeniably result in a substantial run-up of the price in violation of the anti-manipulative provisions of the statute. After some hours of discussion a compromise plan was agreed on. This has become known as the “Columbia Gas plan.”

Columbia Gas Plan

The Columbia Gas plan permits participating dealers—a group which may be as large as to include every registered dealer in the country—to sell the security being distributed and acquire rights to cover those sales. The safeguard against excessive buying of rights is provided by requiring that the purchase of rights can be made only after the short sale of the stock at a price fixed by the manager. Participating dealers may not buy rights if they are not short of stock. Of course they may not trade in the stock.

Under the plan, dealers agree to make all sales at the figure announced by the managers, which predetermined price is to hold good for twenty-four hours. This price is usually the last sale price on the previous evening, if the security is listed on an exchange. If the security is not listed, the price is either the low or average offering price of the previous evening.

Since there is no underwriting of unsubscribed shares in a dealer participation plan, some disposition has to be made of the remaining stock which is not taken. A new normal practice is for stockholders to be given the privilege of oversubscribing, in addition to their allotment. This reduces the likelihood of there being unsubscribed shares. Any shares which remain are generally made the object of a separate underwriting. If the number is small, they may be disposed of in the open market. However, in the first New York State Electric & Gas offering, only about 90% of the issue was allocated for subscription and there was no oversubscription privilege. The remaining 10% was made the subject of a distribution by the participating dealers concurrently with the rights offering. Of course, dealers were paid an extra commission for selling these shares. As I stated a moment ago, the two basic types of rights offerings which I have described to you have been modified, changed and elaborated in subsequent cases. The Columbia Gas plan was so successful in enlisting dealer aid in getting existing stockholders to exercise rights that this participating dealer feature was incorporated into the Shields plan. Today many standby underwritings provide for participation and compensate those dealers whose names appear on the exchange warrant. That is what took place in the Colorado Central Power Company offering. The recent West Penn Electric offering was also of that type, although it combined a very interesting exchange offer to preferred stockholders.

The basic Columbia Gas plan has also been expanded. You may have noticed that under the original plan the manager did not buy rights. This restriction was modified in the New York State Electric & Gas distribution, and in the second Columbia Gas offering to enable the manager to purchase rights in the open market. Dealers can then acquire stock from the manager for sale by them away from the market, as in the Washington Gas & Electric offering. As these offerings are now set up, the following is...
The manager’s supporting bid would cause other members of the group, who were attempting to purchase the rights to cover their sales of new stock, to make numerous raisins in the price and thus undoubtedly be engaged in activities prohibited by the anti-manipulative sections of the Securities Exchange Act.

Let me say a word here about stabilization. It is a word which is frequently misunderstood. The law prohibits injection of artificial activity into the market. One exception is stabilization—which is a legal form of manipulation. But it is permissible only when it is used to prevent or retard a decline. No moving around of the market under the label of a stabilizing operation is permitted. Stabilization means maintenance of a price independently reached in the market.

A manager purchasing rights under the Shields plan must be careful not to create a rising market or create activity that gives the appearance of strength to a stationary market. He may not enter the market for rights until purchases by others have established the price at a free level. In the over-the-counter market, it is only proper to enter orders on the bid side. If the rights are traded on a market, they should not be entered in excess of the higher of the last sale price or the bid price, except that if the current offering price is below the last sale price, orders may not be entered in excess of the bid price.

Further, purchases should not be in such quantity that they will dry up offerings at that level. In other words, a buyer attempting to buy rights will be forced to set a higher price and the underwriting may be deemed to have raised the price indirectly. Inasmuch as rights are being bought only to reduce risk, any purchases of rights in excess of the underwriter’s intention and ability to lay off stock may well be an unnecessary creation of activity, and therefore manipulative. Similarly, sales of rights (except to fill orders which are in fact unrounded) may indicate excessive buying and carry the same implication. There is, however, no prohibition under the Shields plan against going short more shares of stock than are covered by the rights being bought.

Shields plan purchases of rights differ from purchases of a security in that it is almost never proper to raise a stabilizing bid. However, if in fact your purpose under the Shields plan is only to cut the risk of underwriting, it may well be perfectly proper to raise your bid for rights. This may be done, though, only if the independent market for the rights has moved above your bid. Even so, the Commission feels that no bid should be raised until twenty-four hours have elapsed from the time of your last purchase at the old price.

Some Illustrations and Pitfalls

This sounds very technical, as indeed it is. Perhaps a few examples will illustrate what I have been saying and point out some of the pitfalls.

Stabilization can be a hazardous activity if not carefully supervised. In the latter part of 1945 one of the steel companies made a rights offering on a standby underwriting. In order to insure the success of the offering, the underwriters placed a stabilizing bid on the New York Curb Exchange where the stock was traded. The underwriters did not have to make any stabilization purchases throughout the subscription period, and when the stocks ran out at 2:30 p.m. on the last day, they were informed that the unsubscribed portion amounted to $125,000. It was decided to sell this amount the following day. Not having purchased any stock in stabilizing during the entire subscription period, they felt secure in leaving their bid on the Curb until the close of that session. However, in this interval, much to their consternation and dismay, a few minutes before (Continued on page 64)
What Can Traders Do In a Rights Offering?

(Continued from page 63) three o'clock they were suddenly hit with 4,700 shares of stock. Thus we had the unusual phenomenon of an underwriter purchasing 4,700 shares to facilitate an offering of 148 shares.

In one of the earliest offerings under the Shields plan involving a security in which there was no existing market, the managing underwriters received orders during the subscription period for about 10,000 shares from institutional buyers. They bid a price which they felt the underwriters to determine as a fair price for the stock. These underwriters filled the order at a price above the subscription price, in order to do so. This sale price was equivalent to a much higher price for the rights than the rights were then selling for. Consequently, the underwriters believed the underwriters had been careful enough to avoid transactions of a similar nature.

I have tried, in these few minutes, to cover a very complicated and very difficult field in finance. I have not been able to explore all the ramifications of the problem for you precisely what you can and what you cannot do in each and every stage which may come up. There would be an impossible task, even if we had the time, for many cases must be decided on the particular facts as they present themselves in a given context.

My purpose this evening has been to give you a picture of what takes place in rights offerings so that you may better understand the reasons for the Commission’s rulings in individual cases. I think the staff of the Commission and its approval of the problems you encounter in these rights offers an opportunity to say to those in the industry with whom I have come in contact here in turn, displayed an understanding and acceptance of the principles and standards which Congress has set up.

The development and application of the Shields plan and the Columbia Gas plan and the other variants which have been described reveal in a significant way the adaptability and flexibility which I have always felt the investment industry to possess. Prudent regulation has permitted the industry to change its methods with changing conditions. The result has been that the primary function of the investment industry—which is to secure for owners of capital the capital it needs—has been achieved.

The Business and Market Outlook

(Continued from page 19) in our domestic markets of either the output of these workers or offsetting imports.

War Threats

This brings us to two additional potential threats to the stock market by early summer. Great the possible revival of war threats in Europe by next Spring, if not soon. We know of no way of telling if serious trouble is likely to break out in the Berlin area, in the Balkans, or somewhere else, but it seems to us that there is much more reason for fearing trouble next year than there was during the period of politically inspired scares just before the 1914 Presidential election. Without any claim to being experts on foreign affairs, we cannot help but be impressed by the lessened degree of assurance on the part of foreign correspondents as to the avoidance of at least a localized “shooting” war during the coming Spring and Summer. To be sure, the present background threats may be diminished by Spring, but at the moment, we think that the dangers lie in too great a degree of complacency.

Tax Threats

A related danger to our stock market is that of possible Administration efforts to increase taxes next year. This may well be done in the name of “defense.” Last February, President Truman drew his demand that Congress raise taxes on both corporations and individuals in the higher tax brackets only after it became evident that although a move to accelerate the decline in business which was underway at that time (and which, it is pointed out previously, Washington economists felt would continue at least until the end of the year). This was by no means the immediate first time that the trend of the stock market was downward until either the threat of unfavorable tax action had been removed, or a new tax bill had been worked out.

It might be well to review, at this point, some of the more widely publicized threats which were behind the prevailing opinion, during periods in both 1947 and 1948 when the Dow-Jones Industrial Average was in the 160-170 range. In April 1946, the 160-160.49 would be penetrated substantially before the rise was stopped. In our opinion, the most telling argument was the indisputable fact that our tax laws have not only greatly diminished the flow of funds into the hands of individuals who were in the best position to assume risks, but have also reduced the incentives to take risks. Anyone who is in the 70% to 80% tax bracket is inclined to think twice about investing in equities, except from appreciation. The national effort and capital gains point of view. As a group, the top-bracket earners have very little new money to invest each year. At the same time, the financial assets of large estates is throwing progressively more stock out of the market. The mutual investment trusts are doing an excellent job of getting individuals in the lower brackets to place part of their funds in equities, but it does not seem to us that we can absorb all of the selling which we believe is in prospect on any rise to within 5% to 10% of the 1946 highs. This situation tends to lower both the “support points” and potential highs for common stocks, and goes a long way toward accounting for this low-price-earnings ratios at which we have been working during the past few years.

Specific Bearish Arguments

One of the themes of the past three years, which are still valid, include lack of confidence in the administration, the long-term trend toward Socialism, and the fact that the level of government spending cannot help but reduce the standard of living over time. For a while, in 1948, there was reason for believing that the American public was going to demand a change, but, of course, this hope died on Nov. 2. (This in itself made us lower our previous cyclic expectations by 20%.) Under the circumstances, it might be well to keep these matters in mind, but to remember that they do not necessarily have any effect on the short-term outlook.

We should like to turn, now, to the outlook of the market. As regular readers of the “Chronicle” (and our clients) are aware, we believe that certain types of technical studies can be very helpful in telling us when to be especially careful. In accepting the majority opinion as to the outlook for either earnings or stock prices. The technical approaches which we have found to be the most helpful are those having to do with charting the market. This charting too much, rather to either favorable or unfavorable influences to run their course is developed more than fifteen years ago, and tested in actual practice since 1923, gave warnings of a probable decline of 25% or more in the
market as a whole in early 1924, in Nov., 1928; in the Spring of
1940, and in the first quarter of
1946. (In each of these periods,
we were told that there were
valid reasons for ignoring
these warnings on the theory that
"Things are different now." In
1924, the weakness in the eco-
nomic picture were considered
offset by the accumulated demand
for capital goods, resulting from
the depression; in the first nine
months of 1927, the low level of
interest rates was widely accepted
as the controlling, bullish market
factor; in the first quarter of 1940,
European orders for armaments,
and reduced competition in South
America, were advanced as rea-
sons why less favorable factors
should be ignored; and in 1946,
the prospect of an early ending
of GPA was considered more im-
portant than all of the bearish fac-
tors to which we called attention
at that time.) Those Timid
Studies have been telling us, dur-
ing the past two years, that we
should give the market the bene-
fit of any doubts until at least one
or more of the leading industrial
stock averages had risen, in either
the Spring or Fall of 1949 to above
the highest levels touched in the
preceding two years. From that point on, if we
may judge by a seventy-year
record, we would be in the Summer of 1939 or
in late 1930. The exact timing of the anticipated cyclical peak will de-
pend in part on the repercussions
of the steel strike, which, at this
writing, is still underway. A level
between 190 and 210 in the

Dow-Jones Industrial Average
would satisfy most of the long-
term technical studies which we
have found to be worth serious
attention, and the action of the
market within that range should
help determine the probable ex-
tent of the subsequent cyclical
decline.

A recent statement by Mr. Leon
Keyserling, perhaps, the most in-
fluential of President Truman's
economic advisers, would seem to
strengthen the conclusion that
this is a time for caution. On
Sept. 19, Mr. Keyserling said:
"The recent economic setback has
thus far been so much more mod-
erate than the one which came
shortly after World War I because of
man-made decisions and insti-
tutions. . . . Intelligent govern-
ment policies have been power-
fully contributory toward stabiliz-
ing and sustaining the economy."
Ignoring for the moment the fact
that the Administration proposals
last January have to provide the
government build steel plants and in-
crease corporate taxes helped
to cause the readjustment experi-
enced by business during the fol-
lowing six months, Mr. Keyser-
ling's remarks a famous
political statement made in Oct.
1936 (just as business and stock
prices were approaching a cy-
clical peak), "Don't let anyone
tell you that business just hap-
pened to improve: we planned it
that way!"

They Sang Like Birdies
A feature of the Saturday even-
ing banquet was a special event
for the wives of the delegates—
$50 in prizes for the best female
duet being offered by the "In-
vestment Dealers Digest."

The winning quartet, coached by
Joseph Gannon, was from Boston
and consisted of Mrs. Gannon,
Mrs. William May, Mrs. William
Thompson, and Mrs. Frank D.
Harrington. Winners of the second
place were Mrs. Edward H. Welch,
Chicago; Mrs. Edward E. Parsons,
Jr., Cleveland; Mrs. John F. Fin-
egan, San Francisco, and Mrs.
Winton A. Jackson, Dallas. The
Philadelphia quartet won third
place: Mrs. John Hudson, Mrs.
Felix Maguire, Mrs. Herbert H.
Blizzard, and Miss Peggy Mosley.

Following the ladies came the
"Half-Ton Male Quartet," consist-
ing of SBC Commissioner, Richard
McIntyre; Harold Smith, Pershing
& Co., New York; Edwin L. Beck,
"Commercial & Financial Chron-
icle," and to bring the weight to
exactly the half-ton, J. B. Mc-
Mahan, Merrill Lynch, Pierce,
Fenner & Beane, San Francisco.

The event was concluded with
songs by Mrs. Richard Walsh of
St. Louis, and Miss Carol Mason
of Lynghurst, Va.
Guaranteed Local Housing Bonds

(Continued from page 8)

Needless to say, the development of such projects must be approved by FHA as it is the figure used in determining the amount of annual contributions to be paid by FHA.

At this point the local agency is ready to authorize and issue its definitive bonds and proceed ac-

a nature readily adaptable to a uniform pattern and it is anticipated that uniform proceedings for the issuance of bonds will be taken by all local agencies participating in the Federal program. After authorization will follow public sale of the bonds to the bidder naming the lowest interest cost.

Nature of Housing Bonds

Now what will be the nature of this bond which the successful bidder will buy? That seems to be the $64 question. As such obligations have not yet come to the market, I can only tell you what I believe it will be, hoping that my beliefs will not lead me to misstate or overstate its quality.

It is my belief that the bond will be a full faith and credit obligation of a political entity, issued under constitutional law of the state, secured not only by the net revenues of the project being financed, but more important, secured by the pledge of a contract under which an instrumentality of the Federal Government, regardless of circumstances, agrees to make payment annually to the Local Housing Agency's fiscal agent for the bond issue, of a contribution sufficient in amount to meet payment of principal and interest as the same nature or become due and payable. It is, of course, possible that the bond may provide that the annual contribution may be reduced in any year by the amount of rental revenues actually on hand and applicable to debt service, but what bondholder would not willingly allow for such substitution of funds when the contract with the FHA assures payment in full by the Federal Government should such rental revenues not be forthcoming.

It is my belief that the subject bonds will be as above described in view of the new Housing Act of 1949 and the so-called "perfecting amendments" contained therein.

If we have followed the difficult course of this legislation through Congress, experts have used the term "perfecting amendments" advisedly as it is our opinion that their inclusion in this legislation provides the means by which the highest quality may be attained in the composition of the bonds of the local housing agencies. The provisions and the metes and bounds to which I refer are now contained in Section 22 of the amendment to the Housing Act of 1937. I would like to state these provisions to you, when the time for that purpose arrives, I have paraphrased it.

Private Financing, Sec. 22—To facilitate the solicitation of private capital through the sale by local housing agencies of bonds to others than the FHA, in financing low-rent housing projects, and to maintain the low-rent character of housing projects:

Whenever the amount of bond issue contributions shall include provisions which the FHA, in said contract, determines to be in accordance with subsection (a) thereof (relating to FHA's right to take possession of, or title to, a project upon occurrence of a substantial default by the local housing agent), and the annual contributions, pursuant to such contract, have been pledged by the local housing agency as security for the payment of the principal and interest on any of its bonds, the FHA (notwithstanding any other provisions of this Act) shall continue to make annual contributions payable for the project so long as any of such bonds remain outstanding.

It will be noted that the foregoing provision will in no way impair the FHA's power to contract for and to pay annual contributions for the continuation of a project, and is designed to encourage and to assist in the development of private sources of funds for low-rent housing projects.
tion, I quote the applicable provision in the charter of the New York State which is substantially representative: “Bonds of an authority are declared to be issued for a public purpose and to be public instruments and are and shall be exempt from tax.” It will be a bond eligible for purchase in unlimited amount and which may be underwritten by national banks and, to the extent permitted by state law, by member banks of the Federal Reserve System and in most cases a “legal investment,” in the state in which the issuer is located and many of the other states of the Union. It will also be a bond, and here I take no exception with my analogy, comparable to a “tax-exempt government.”

With all of these features, I believe it will be a bond which will create national investor interest and accordingly be of interest to all investment dealers and traders. The financing of the Federally-aided program will require that literally billions of such bonds come to the market in the next few years. More than 700 local authorities and agencies of the states and our possessions have been represented. The substantial majority of these agencies have, or will have, projects constructed and financed under the Federal program and must come into the bond market from time to time to secure their money requirements. Some of these agencies will only have one issue; others will have a number of such issues equal to the number of projects being constructed. However, the issues of all local housing agencies, large or small, regardless of location, and regardless of the city or other political subdivision in which territorial jurisdiction it would be entitled to a national credit rating basis, since all are afforded the opportunity to produce, and undoubtedly will produce, for public consumption, obligations which are identical to security.

In making the foregoing statement I am not unmindful of the fact that there may be some slight diversion from the single uniform credit rating basis due to varying local tax exemptions and legal investment qualities afforded by state statutes. However, it is my opinion, and I believe you will agree with me, that the security behind all will be the same, and that is the most important consideration. In the final analysis, you must conclude that there is in effect “nothing in a name,” as the name of the issuer on the bond will simply identify the location of the project being financed and the amount of the issue which will merely indicate the capital cost of such project.

To the members of this important segment of the investment banking fraternity I say that as never before has the credit of the Federal Government been afforded unconditionally to a security which comes to the investment market through the channels prescribed for those housing bonds. These bonds, if they are made as good as they can be, and as I expect they will be, will be something new in the investment world. I say this because I do not know of any other instance where obligations reflecting Federal credit have been offered in a manner which makes the best and fullest use of the investment machinery of the nation.

The Equity Share as An Inflation Hedge

Thus the stockholder, based on the average performance since 1945, has gained an appreciation of 33% while he was facing a net rise in his cost of living of 42%. The holder of government obligations has experienced slight declines in both yield and market prices (due to a lower coupon rate).

In the U. S.

The U. S. experience is worth looking at, not so much as a precedent for the future, but to note the attitude toward equity ownership in a comparatively “unseasoned” investment field. Based on their respective 1939-1938 averages, common stocks have gained 25%, high-grade bonds have risen 4%; while the cost of living measured by the U. S. Department of Commerce Index has increased 95%, and according to the Consumer Price Index of the Department of Labor, by 89%.

Conclusions

We see that equity investment has in all countries afforded some protection against recent declines in the currency’s purchasing power. The recent decline in the value of our dollar has been “minor” (that is, shares have declined absolutely, versus the continuing cost-of-living rise), possibly due to discriminatory policies in tax and other fields. In the United States, during the period comprising the entire decade, the stockholder has fared considerably worse marketwise than have his British and French cousins, slightly worse than the Swiss, and about the same as in Italy.

The almost unique application of capital gains taxation must be reassembled in the manner in which the United States equity share over the long-term is behind that in other countries; and that it at least constitutes one of the “must” types of investment media in the capital’s diversified defensive operations.

1. In Switzerland, some cantons apply capital gains taxation (widely varied).
The tile theory—that a nation to be strong should keep its capital resources at home. Who Will Furnish the Money? But the problem is not one of guarantees alone. The question is where the money is coming from. With shares of domestic corporations thoroughly depressed, and equity capital difficult to obtain by corporations on a sound and reasonable basis, there will be no immediate incentive for American investors to place their funds into foreign ventures. It has always been an axiom of international finance that domestic capital will not flow abroad unless the present or prospective return is considerably higher than that which is received from domestic securities. This requisite is in addition to one or frequently referred to—the “favorable climate” required for foreign investment. In the past century and a half, European capitalists have supplied the United States with funds for development chiefly because the prospective return on the capital was higher than the return received for similar investment at home. With our still expanding economy and high industrial prices, there is ample opportunity for large capital investment at home. If the climate were favorable—which it isn’t! As long as this situation continues, the American public will refrain from dumping its savings in the fire of foreign investment, while withholding it from the domestic frying pan. As well stated in the recent issue of the “Guaranty Survey,” publication of the Guaranty Trust Company of New York: “The conclusion is inescapable that only private capital can give adequate and satisfactory financial implementation to the “Point Four” program. Such capital is available in large amounts, but only on condition that investors can be offered much stronger prospects of safety and profit in foreign countries than exist at present. This is primarily a problem to be solved by the foreign countries themselves, although our own government can help by continuing and intensifying its efforts to remove trade barriers, by negotiation and agreement to correct the conditions and practices that now prevent large-scale foreign investment, and by examining its tax and regulations that tend to discourage capital, especially equity capital. The Department of State has announced that Congress will be asked to liberalize taxes on income earned in foreign countries.”

The “Favorable Climate” Argument In all discussions of American foreign investments since the end of the war, the fact is stressed that a “favorable climate” for a renewal of such activities does not exist in Europe or, as a matter of fact, in any other nation throughout the world. The International Chamber of Commerce, along with several other similar organizations, has proposed the adoption of an international investment code, and the negotiation of bilateral treaties to assure the protection of foreign capital from the risks it is likely to undergo from domestic legislation. Millions of dollars of American capital has already been lost from this source of depredation. Mr. Eugene Holman, President of the Standard Oil Company of New Jersey, has lately recurred to a Congressional Committee the losses his company alone has recently sustained through the confiscation of properties by national governments. American experience in Mexico, Argentina, Spain, and elsewhere, in which investments or private capital have been ruthlessly destroyed or attacked, should not be lightly passed over.

To create anew an economic climate favorable to investment in all the countries that could advantageously use American capital will be a formidable task. Yet, as recently stated in a bank publication, “The Guaranty Survey,” the process might be facilitated by a modest beginning. The necessary arrangement could be made with one or two countries, and the experience gained might be used as a guide in subsequent negotiations. Such an experimental approach would take the form of a “Point Four” program of large magnitude, with such obstacles to be overcome, to arrive at the point of success. Many so-called underdeveloped countries still adhere to unfriendly distrustful, and unrealistic attitude toward foreign private investment, expecting a ready disposal of their investment, so that the outlook for rapid implementation of the “Point Four” is far from bright. Although it should be recognized that foreign investors ought to refrain from meddling in a country’s internal affairs and that every country has the right to conserve its natural resources, and give no protection to foreign over domestic capital, it is equally true that investors are concerned with the safety and profitableness of their investments and have the right to expect protection against unfair treatment. A nation that is unwilling or unable to assure protection to foreign investment is not a nation in which foreign investment should arc place, regardless of our national political and economic motives.

In Attendance At Convention (Continued from page 16)
THE COMMERCIAL and FINANCIAL CHRONICLE


Mrs. R. Victor Mosley; Louise Jane Mosley; "Happy" Robbs; Peggy Elizabeth Mosley; R. Victor Mosley, Stroud & Co., Inc., Philadelphia

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(Continued from page 69)

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Report of the NSTA Public Relations Committee

(Continued from page 17, Forum.) This program was de-
signed to acquaint employees of the investment banking houses here in St. Louis who are in con-
forming positions with the mechan-
es of other departments. To date we have reviewed the following companies under the "Know Your St. Louis Industries" program:

Anheuser Buehle Inc.
American Investment Co. of Ill.
Merrill Lynch Corp.
Union Electric Co. of Missouri
Wagner Electric Co.

Under the Educational Forum we had Mr. R. C. Behrens, Vice-
President of the St. Louis Union
Trust Co., speak to us on the sub-
ject "Operations of the Invest-
ment Banker and Investment Out-
look." These meetings take place,
incidentally, on the floor of the
St. Louis Stock Exchange.

We have had grand attendance at both of these programs for a club our size. The attendance average is approximately 150 persons for forum and forum. I am encrying a copy of the first notice that was sent out to our membership which has at-
tached a brief description of both of these programs which I thought you would find interesting should you want to incorporate the ac-
tivities of the St. Louis affiliate in your report at the National Convention in October.

Thanking you, and looking for-
ward to seeing you at the Conven-
tion, kindest personal regards,

Cordially,

JOHN W. BUNN, Chairman, Public Relations & Finance Com.

Exhibit "F"

August 4, 1949.

Mr. Bunn Hines, Editor,
The Saturday Evening Post,
e/o Curtis Publishing Co.,
Independence Square,

Dear Sir:

An item appearing in the cur-
cent issue, Aug. 6, of the "Post" has come to my attention, which, although of a minor nature, serves to build up a misconception in the minds of the public. This item is a cartoon appearing on page 106, drawn by Burr Shaffer. Its text definitely tends to create a dis-
paraging picture for so-called Un-
listed Securities.

Your readers may be interested in the fact that the unlisted mar-
et (often referred to as the over-
the-counter market) for securities was given great impetus after the War between the States. At that time the Treasury of Our Country faced disaster. The then Secre-
tary of the Treasury, Salmon P. Chase, called upon Jay Cooke who served as treasurer of teams of salesmen to tell the story to the citizens of the war-torn nation of how the United States must grow, and how the safest of all handsome yield-
ing securities. Mr. Cooke was responsible for creating 2,000,000 American Investors out of a total population of about 32,000,000.

Even today virtually all trans-
actions in obligations of the United States are conducted in the unlisted market, as are also all transactions in all securities issued by our States and Municipalities. Stocks of most banks and insurance companies, railroad equip-
ment certificates, and real estate bonds are traded likewise.

The "National Quotation Bu-
reau" publishes daily the "Over-
the-Counter" (Unlisted) index of industrial Stock prices. This index continued was not traded on any stock exchange. Of the 55 stocks, two are of compa-
nies who trace their ancestry to years prior to the Civil War: Behrens, Curtis and Company Inc. — 1816

Plymouth Cordage, Company — 1824

Oil & Gas, Company — 1833

The American Hardware Corporation — 1835

Olin & Streeting, Inc. — 1845

The Stanley Works — 1849

Brown & Company Co. — 1850

Isingl Scraps & Company Co. — 1852

Laurel, Lyre & Co. — 1853

The Richardson Company — 1855

and another ten had their begin-
nings in 1900 or earlier:

Nicholson File Company — 1884

The A. E. Stilson Company — 1886

The Central Leather Company — 1892

The American Candle Company — 1899

The Philadelphia Manufacturing Co. — 1899

West Point Manufacturing Co. — 1899

Berkshire Spinners and Weavers Co., Inc. — 1910

Arrowsmith & Co., Inc. — 1911

Rupper and Wheeler Timber Company — 1910

It is interesting to note that some of these companies are in-
cluded among advertisers in your excellent monthly.

This letter is written in an at-
tempts to correct some of the mis-
cceptions which have arisen with regard to the Securities In-
dustry. The National Association of Securities Dealers, a self-regulated body of our busi-
ness, as well as the Securities and Exchange Commission, impose such rigid requirements upon all investment brokers and dealers, that, whether dealings be in the listed or unlisted markets, public interest is probably more closely guarded in this than in other indus-
try or profession.

Sincerely yours,

JOHN M. HUDSON, Vice-Chairman Public Relations Committee, National Security Traders Association

The enclosed are reprints of two articles "When Should a Stock Be Listed," a technical article which I recently wrote, and "There Is Opportunity in Unlisted Securities," an article written by Raymond Triguer of the Investment Dealers Digest. The latter article would seem to be suitable for your publication, na-
turally subject to Mr. Triguer's consent.

Cc. to Mr. Walter D. Fuller, President

THE COMMERCIAL and FINANCIAL CHRONICLE
Thursday, October 27, 1949

70

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