

BUSINESS ADVENTURES

**Twelve Classic
Tales from
the World of
Wall Street**



JOHN BROOKS



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The Fluctuation

THE STOCK MARKET—the daytime adventure serial of the well-to-do—would not be the stock market if it did not have its ups and downs. Any board-room sitter with a taste for Wall Street lore has heard of the retort that J. P. Morgan the Elder is supposed to have made to a naïve acquaintance who had ventured to ask the great man what the market was going to do. “It will fluctuate,” replied Morgan dryly. And it has many other distinctive characteristics. Apart from the economic advantages and disadvantages of stock exchanges—the advantage that they provide a free flow of capital to finance industrial expansion, for instance, and the disadvantage that they provide an all too convenient way for the unlucky, the imprudent, and the gullible to lose their money—their development has created a whole pattern of social behavior, complete with customs, language, and predictable responses to given events. What is truly extraordinary is the speed with which this pattern emerged full blown following the establishment, in 1611, of the world’s first important stock exchange—a roofless courtyard in Amsterdam—and the degree to which it persists (with variations, it is true) on the New York Stock Exchange in the nineteen-sixties. Present-day stock trading in the United States—a bewilderingly vast enterprise, involving millions of miles of private telegraph wires, computers that can read and copy the Manhattan Telephone Directory in three minutes, and over twenty million stockholder participants—would seem to be a far cry from a handful of seventeenth-century Dutchmen haggling in the rain. But the field marks are much the same. The first stock exchange was, inadvertently, a laboratory in which new human reactions were revealed. By the same token, the New York Stock Exchange is also a sociological test tube, forever contributing to the human species’ self-understanding.

The behavior of the pioneering Dutch stock traders is ably documented in a book entitled “Confusion of Confusions,” written by a plunger on the Amsterdam market named Joseph de la Vega; originally published in 1688, it was reprinted in English translation a few years ago by the Harvard Business School. As for the behavior of present-day American investors and brokers—whose traits, like those of all stock traders, are exaggerated in times of crisis—it may be clearly revealed through a consideration of their activities during the last week of May, 1962, a time when the stock market fluctuated in a startling way. On Monday, May 28th, the Dow-Jones average of thirty leading industrial stocks, which has been computed every trading day since 1897, dropped 34.95 points, or more than it had dropped on any other day except October 28, 1929, when the loss was 38.33 points. The volume of trading on May 28th was 9,350,000 shares—the seventh-largest one-day turnover in Stock Exchange history. On Tuesday, May 29th, after an alarming morning when most stocks sank far below their Monday-afternoon closing prices, the market suddenly changed direction, charged upward with astonishing vigor, and finished the day with a large, though not record-breaking, Dow-Jones gain of 27.03 points. Tuesday’s record, or near record, was in trading volume; the 14,750,000

shares that changed hands added up to the greatest one-day total ever except for October 29, 1929, when trading ran just over sixteen million shares. (Later in the sixties, ten, twelve, and even fourteen-million share days became commonplace; the 1929 volume record was finally broken on April 1st, 1968, and fresh records were set again and again in the next few months.) Then, on Thursday, May 31st, after a Wednesday holiday in observance of Memorial Day, the cycle was completed; on a volume of 10,710,000 shares, the fifth-greatest in history, the Dow-Jones average gained 9.40 points, leaving it slightly above the level where it had been before all the excitement began.

The crisis ran its course in three days, but, needless to say, the post-mortems took longer. One of de la Vega's observations about the Amsterdam traders was that they were "very clever in inventing reasons" for a sudden rise or fall in stock prices, and the Wall Street pundits certainly needed all the cleverness they could muster to explain why, in the middle of an excellent business year, the market had suddenly taken its second-worst nose dive ever up to that moment. Beyond these explanations—among which President Kennedy's April crackdown on the steel industry's planned price increase ranked high—it was inevitable that the postmortems should often compare May, 1962, with October, 1929. The figures for price movement and trading volume alone would have forced the parallel, even if the worst panic days of the two months—the twenty-eighth and the twenty-ninth—had not mysteriously and, to some people, ominously coincided. But it was generally conceded that the contrasts were more persuasive than the similarities. Between 1929 and 1962, regulation of trading practices and limitations on the amount of credit extended to customers for the purchase of stock had made it difficult, if not actually impossible, for a man to lose *all* his money on the Exchange. In short, de la Vega's epithet for the Amsterdam stock exchange in the sixteen-eighties—he called it "this gambling hell," although he obviously loved it—had become considerably less applicable to the New York exchange in the thirty-three years between the two crashes.

THE 1962 crash did not come without warning, even though few observers read the warnings correctly. Shortly after the beginning of the year, stocks had begun falling at a pretty consistent rate, and the pace had accelerated to the point where the previous business week—that of May 21st through May 25th—had been the worst on the Stock Exchange since June, 1950. On the morning of Monday, May 28th, then, brokers and dealers had reason to be in a thoughtful mood. Had the bottom been reached, or was it still ahead? Opinion appears, in retrospect, to have been divided. The Dow-Jones news service, which sends its subscribers spot financial news by teleprinter, reflected a certain apprehensiveness between the time it started its transmissions, at nine o'clock, and the opening of the Stock Exchange, at ten. During this hour, the broad tape (as the Dow-Jones service, which is printed on vertically running paper six and a quarter inches wide, is often called, to distinguish it from the Stock Exchange price tape, which is printed horizontally and is only three-quarters of an inch high) commented that many securities dealers had been busy over the weekend sending out demands for additional collateral to credit customers whose stock assets were shrinking in value; remarked that the type of precipitate liquidation seen during the previous week "has been a stranger to Wall Street for years;" and went on to give several items of encouraging business news, such as the fact that Westinghouse had just received a new Navy contract. In the stock market, however, as de la Vega points out, "the news [as such] is often of little value;" in the short run, the mood of the investors is what counts.

This mood became manifest within a matter of minutes after the Stock Exchange opened. At 10:11, the broad tape reported that "stocks at the opening were mixed and only moderately active." This was reassuring information, because "mixed" meant that some were up and some were down, and also

because a falling market is universally regarded as far less threatening when the amount of activity in it is moderate rather than great. But the comfort was short-lived, for by 10:30 the Stock Exchange tape, which records the price and the share volume of every transaction made on the floor, not only was consistently recording lower prices but, running at its maximum speed of five hundred characters per minute, was six minutes late. The lateness of the tape meant that the machine was simply unable to keep abreast of what was going on, so fast were trades being made. Normally, when a transaction is completed on the floor of the Exchange, at 11 Wall Street, an Exchange employee writes the details on a slip of paper and sends it by pneumatic tube to a room on the fifth floor of the building, where one of a staff of girls types it into the ticker machine for transmission. A lapse of two or three minutes between a floor transaction and its appearance on the tape is normal, therefore, and is not considered by the Stock Exchange to be "lateness;" that word, in the language of the Exchange, is used only to describe any additional lapse between the time a sales slip arrives on the fifth floor and the time the hard-pressed ticker is able to accommodate it. ("The terms used on the Exchange are not carefully chosen," complained de la Vega.) Tape delays of a few minutes occur fairly often on busy trading days, but since 1930, when the type of ticker in use in 1962 was installed, big delays had been extremely rare. On October 24, 1929, when the tape fell two hundred and forty-six minutes behind, it was being printed at the rate of two hundred and eighty-five characters a minute; before May, 1962, the greatest delay that had ever occurred on the new machine was thirty-four minutes.

Unmistakably, prices were going down and activity was going up, but the situation was still not desperate. All that had been established by eleven o'clock was that the previous week's decline was continuing at a moderately accelerated rate. But as the pace of trading increased, so did the tape delay. At 10:55, it was thirteen minutes late; at 11:14, twenty minutes; at 11:35, twenty-eight minutes; at 11:58, thirty-eight minutes; and at 12:14, forty-three minutes. (To inject at least a seasoning of up-to-date information into the tape when it is five minutes or more in arrears, the Exchange periodically interrupted its normal progress to insert "flashes," or current prices of a few leading stocks. The time required to do this, of course, added to the lateness.) The noon computation of the Dow-Jones industrial average showed a loss for the day so far of 9.86 points.

Signs of public hysteria began to appear during the lunch hour. One sign was the fact that between twelve and two, when the market is traditionally in the doldrums, not only did prices continue to decline but volume continued to rise, with a corresponding effect on the tape; just before two o'clock, the tape delay stood at fifty-two minutes. Evidence that people are selling stocks at a time when they ought to be eating lunch is always regarded as a serious matter. Perhaps just as convincing a portent of approaching agitation was to be found in the Times Square office (at 1451 Broadway) of Merrill Lynch, Pierce, Fenner & Smith, the undisputed Gargantua of the brokerage trade. This office was plagued by a peculiar problem: because of its excessively central location, it was visited every day at lunchtime by an unusual number of what are known in brokerage circles as "walk-ins"—people who are securities customers only in a minuscule way, if at all, but who find the atmosphere of a brokerage office and the changing prices on its quotation board entertaining, especially in times of stock-market crisis. ("Those playing the game merely for the sake of entertainment and not because of greediness are easily to be distinguished."—de la Vega.) From long experience, the office manager, a calm Georgian named Samuel Mothner, had learned to recognize a close correlation between the current degree of public concern about the market and the number of walk-ins in his office, and at midday on May 28th the mob of them was so dense as to have, for his trained sensibilities, positively albatross-like connotations of disaster ahead.

Mothner's troubles, like those of brokers from San Diego to Bangor, were by no means confined to

disturbing signs and portents. An unrestrained liquidation of stocks was already well under way; in Mothner's office, orders from customers were running five or six times above average, and nearly all of them were orders to sell. By and large, brokers were urging their customers to keep cool and hold on to their stocks, at least for the present, but many of the customers could not be persuaded. In another midtown Merrill Lynch office, at 61 West Forty-eighth Street, a cable was received from a substantial client living in Rio de Janeiro that said simply, "Please sell out everything in my account." Lacking the time to conduct a long-distance argument in favor of forbearance, Merrill Lynch had no choice but to carry out the order. Radio and television stations, which by early afternoon had caught the scent of news, were now interrupting their regular programs with spot broadcasts on the situation; as a Stock Exchange publication has since commented, with some asperity, "The degree of attention devoted to the stock market in these news broadcasts may have contributed to the uneasiness among some investors." And the problem that brokers faced in executing the flood of selling orders was by this time vastly complicated by technical factors. The tape delay, which by 2:26 amounted to fifty-five minutes, meant that for the most part the ticker was reporting the prices of an hour before, which in many cases were anywhere from one to ten dollars a share higher than the current prices. It was almost impossible for a broker accepting a selling order to tell his customer what price he might expect to get. Some brokerage firms were trying to circumvent the tape delay by using makeshift reporting systems of their own; among these was Merrill Lynch, whose floor brokers, after completing a trade, would—if they remembered and had the time—simply shout the result into a floorside telephone connected to a "squawk box" in the firm's head office, at 70 Pine Street. Obviously, haphazard methods like this were subject to error.

On the Stock Exchange floor itself, there was no question of any sort of rally; it was simply a case of all stocks' declining rapidly and steadily, on enormous volume. As de la Vega might have described the scene—as, in fact, he *did* rather flamboyantly describe a similar scene—"The bears [that is, the sellers] are completely ruled by fear, trepidation, and nervousness. Rabbits become elephants, brawls in a tavern become rebellions, faint shadows appear to them as signs of chaos." Not the least worrisome aspect of the situation was the fact that the leading bluechip stocks, representing shares in the country's largest companies, were right in the middle of the decline; indeed, American Telephone & Telegraph, the largest company of them all, and the one with the largest number of stockholders, was leading the entire market downward. On a share volume greater than that of any of the more than fifteen hundred other stocks traded on the Exchange (most of them at a tiny fraction of Telephone's price), Telephone had been battered by wave after wave of urgent selling all day, until at two o'clock it stood at 104³/₄—down 6⁷/₈ for the day—and was still in full retreat. Always something of a bellwether, Telephone was now being watched more closely than ever, and each loss of a fraction of a point in its price was the signal for further declines all across the board. Before three o'clock, I.B.M. was down 17¹/₂ points; Standard Oil of New Jersey, often exceptionally resistant to general declines, was off 3¹/₄; and Telephone itself had tumbled again, to 101¹/₈. Nor did the bottom appear to be in sight.

Yet the atmosphere on the floor, as it has since been described by men who were there, was not hysterical—or, at least, any hysteria was well controlled. While many brokers were straining to the utmost the Exchange's rule against running on the floor, and some faces wore expressions that have been characterized by a conservative Exchange official as "studious," there was the usual amount of joshing, horseplay, and exchanging of mild insults. ("Jokes ... form a main attraction to the business."—de la Vega.) But things were not entirely the same. "What I particularly remember is feeling physically exhausted," one floor broker has said. "On a crisis day, you're likely to walk ten or

eleven miles on the floor—that's been measured with pedometers—but it isn't just the distance that wears you down. It's the physical contact. You have to push and get pushed. People climb all over you. Then, there were the sounds—the tense hum of voices that you always get in times of decline. As the rate of decline increases, so does the pitch of the hum. In a rising market, there's an entirely different sound. After you get used to the difference, you can tell just about what the market is doing with your eyes shut. Of course, the usual heavy joking went on, and maybe the jokes got a little more forced than usual. Everybody has commented on the fact that when the closing bell rang, at three-thirty, a cheer went up from the floor. Well, we weren't cheering because the market was down. We were cheering because it was over."

BUT was it over? This question occupied Wall Street and the national investing community all the afternoon and evening. During the afternoon, the laggard Exchange ticker slogged along, solemnly recording prices that had long since become obsolete. (It was an hour and nine minutes late at closing time, and did not finish printing the day's transactions until 5:58.) Many brokers stayed on the Exchange floor until after five o'clock, straightening out the details of trades, and then went to their offices to work on their accounts. What the price tape had to tell, when it finally got around to telling it, was a uniformly sad tale. American Telephone had closed at $100\frac{5}{8}$, down 11 for the day. Philip Morris had closed at $71\frac{1}{2}$, down $8\frac{1}{4}$. Campbell Soup had closed at 81, down $10\frac{3}{4}$. I.B.M. had closed at 361, down $37\frac{1}{2}$. And so it went. In brokerage offices, employees were kept busy—many of them for most of the night—at various special chores, of which by far the most urgent was sending out margin calls. A margin call is a demand for additional collateral from a customer who has borrowed money from his broker to buy stocks and whose stocks are now worth barely enough to cover the loan. If a customer is unwilling or unable to meet a margin call with more collateral, his broker will sell the margined stock as soon as possible; such sales may depress other stocks further, leading to more margin calls, leading to more stock sales, and so on down into the pit. This pit had proved bottomless in 1929, when there were no federal restrictions on stock-market credit. Since then, a floor had been put in it, but the fact remains that credit requirements in May of 1962 were such that a customer could expect a call when stocks he had bought on margin had dropped to between fifty and sixty per cent of their value at the time he bought them. And at the close of trading on May 28th nearly one stock in four had dropped as far as that from its 1961 high. The Exchange has since estimated that 91,700 margin calls were sent out, mainly by telegram, between May 25th and May 31st; it seems a safe assumption that the lion's share of these went out in the afternoon, in the evening, or during the night of May 28th—and not just the early part of the night, either. More than one customer first learned of the crisis—or first became aware of its almost spooky intensity—on being awakened by the arrival of a margin call in the pre-dawn hours of Tuesday.

If the danger to the market from the consequences of margin selling was much less in 1962 than it had been in 1929, the danger from another quarter—selling by mutual funds—was immeasurably greater. Indeed, many Wall Street professionals now say that at the height of the May excitement the mere thought of the mutual-fund situation was enough to make them shudder. As is well known to the millions of Americans who have bought shares in mutual funds over the past two decades or so, they provide a way for small investors to pool their resources under expert management; the small investor buys shares in a fund, and the fund uses the money to buy stocks and stands ready to redeem the investor's shares at their current asset value whenever he chooses. In a serious stock-market decline, the reasoning went, small investors would want to get their money out of the stock market and would therefore ask for redemption of their shares; in order to raise the cash necessary to meet the

redemption demands, the mutual funds would have to sell some of their stocks; these sales would lead to a further stock-market decline, causing more holders of fund shares to demand redemption—and so on down into a more up-to-date version of the bottomless pit. The investment community's collective shudder at this possibility was intensified by the fact that the mutual funds' power to magnify a market decline had never been seriously tested; practically nonexistent in 1929, the funds had built up the staggering total of twenty-three billion dollars in assets by the spring of 1962, and never in the interim had the market declined with anything like its present force. Clearly, if twenty-three billion dollars in assets, or any substantial fraction of that figure, were to be tossed onto the market now, it could generate a crash that would make 1929 seem like a stumble. A thoughtful broker named Charles J. Rolo, who was a book reviewer for the *Atlantic* until he joined Wall Street's literary coterie in 1960, has recalled that the threat of a fund-induced downward spiral, combined with general ignorance as to whether or not one was already in progress, was "so terrifying that you didn't even mention the subject." As a man whose literary sensibilities had up to then survived the well-known crassness of economic life, Rolo was perhaps a good witness on other aspects of the downtown mood at dusk on May 28th. "There was an air of unreality," he said later. "No one, as far as I knew, had the slightest idea where the bottom would be. The closing Dow-Jones average that day was down almost thirty-five points, to about five hundred and seventy-seven. It's now considered elegant in Wall Street to deny it, but many leading people were talking about a bottom of four hundred—which would, of course, have been a disaster. One heard the words 'four hundred' uttered again and again, although if you ask people now, they tend to tell you they said 'five hundred.' And along with the apprehensions there was a profound feeling of depression of a very personal sort among brokers. We knew that our customers—by no means all of them rich—had suffered large losses as a result of our actions. Say what you will, it's extremely disagreeable to lose other people's money. Remember that this happened at the end of about twelve years of generally rising stock prices. After more than a decade of more or less constant profits to yourself and your customers, you get to think you're pretty good. You're on top of it. You can make money, and that's that. This break exposed a weakness. It subjected one to a certain loss of self-confidence, from which one was not likely to recover quickly." The whole thing was enough, apparently, to make a broker wish that he were in a position to adhere to de la Vega's cardinal rule: "*Never give anyone the advice to buy or sell shares*, because, where perspicacity is weakened, the most benevolent piece of advice can turn out badly."

IT was on Tuesday morning that the dimensions of Monday's debacle became evident. It had by now been calculated that the paper loss in value of all stocks listed on the Exchange amounted to \$20,800,000,000. This figure was an all-time record; even on October 28, 1929, the loss had been a mere \$9,600,000,000, the key to the apparent inconsistency being the fact that the total value of the stocks listed on the Exchange was far smaller in 1929 than in 1962. The new record also represented a significant slice of our national income—specifically, almost four per cent. In effect, the United States had lost something like two weeks' worth of products and pay in one day. And, of course, there were repercussions abroad. In Europe, where reactions to Wall Street are delayed a day by the time difference, Tuesday was the day of crisis; by nine o'clock that morning in New York, which was toward the end of the trading day in Europe, almost all the leading European exchanges were experiencing wild selling, with no apparent cause other than Wall Street's crash. The loss in Milan was the worst in eighteen months. That in Brussels was the worst since 1946, when the Bourse there reopened after the war. That in London was the worst in at least twenty-seven years. In Zurich, there had been a sickening thirty-per-cent selloff earlier in the day, but some of the losses were now being

cut as bargain hunters came into the market. And another sort of backlash—less direct, but undoubtedly more serious in human terms—was being felt in some of the poorer countries of the world. For example, the price of copper for July delivery dropped on the New York commodity market by forty-four one-hundredths of a cent per pound. Insignificant as such a loss may sound, it was a vital matter to a small country heavily dependent on its copper exports. In his recent book “The Great Ascent,” Robert L. Heilbroner had cited an estimate that for every cent by which copper prices drop on the New York market the Chilean treasury lost four million dollars; by that standard, Chile’s potential loss on copper alone was \$1,760,000.

Yet perhaps worse than the knowledge of what had happened was the fear of what might happen now. The *Times* began a queasy lead editorial with the statement that “something resembling an earthquake hit the stock market yesterday,” and then took almost half a column to marshal its forces for the reasonably ringing affirmation “Irrespective of the ups and downs of the stock market, we are and will remain the masters of our economic fate.” The Dow-Jones news ticker, after opening up shop at nine o’clock with its customary cheery “Good morning,” lapsed almost immediately into disturbing reports of the market news from abroad, and by 9:45, with the Exchange’s opening still a quarter of an hour away, was asking itself the jittery question “When will the dumping of stocks let up?” Not just yet, it concluded; all the signs seemed to indicate that the selling pressure was “far from satisfied.” Throughout the financial world, ugly rumors were circulating about the imminent failure of various securities firms, increasing the aura of gloom. (“The expectation of an event creates a much deeper impression ... than the event itself.”—de la Vega.) The fact that most of these rumors later proved false was no help at the time. Word of the crisis had spread overnight to every town in the land, and the stock market had become the national preoccupation. In brokerage offices, the switchboards were jammed with incoming calls, and the customers’ areas with walk-ins and, in many cases, television crews. As for the Stock Exchange itself, everyone who worked on the floor had got there early, to batten down against the expected storm, and additional hands had been recruited from desk jobs on the upper floors of 11 Wall to help sort out the mountains of orders. The visitors’ gallery was so crowded by opening time that the usual guided tours had to be suspended for the day. One group that squeezed its way onto the gallery that morning was the eighth-grade class of Corpus Christi Parochial School, of West 121st Street; the class’s teacher, Sister Aquin, explained to a reporter that the children had prepared for their visit over the previous two weeks by making hypothetical stock-market investments with an imaginary ten thousand dollars each. “They lost all their money,” said Sister Aquin.

The Exchange’s opening was followed by the blackest ninety minutes in the memory of many veteran dealers, including some survivors of 1929. In the first few minutes, comparatively few stocks were traded, but this inactivity did not reflect calm deliberation; on the contrary, it reflected selling pressure so great that it momentarily paralyzed action. In the interests of minimizing sudden jumps in stock prices, the Exchange requires that one of its floor officials must personally grant his permission before any stock can change hands at a price differing from that of the previous sale by one point or more for a stock priced under twenty dollars, or by two points or more for a stock priced above twenty dollars. Now sellers were so plentiful and buyers so scarce that hundreds of stocks would have to open at price changes as great as that or greater, and therefore no trading in them was possible until a floor official could be found in the shouting mob. In the case of some of the key issues, like I.B.M., the disparity between sellers and buyers was so wide that trading in them was impossible even *with* the permission of an official, and there was nothing to do but wait until the prospect of getting a bargain price lured enough buyers into the market. The Dow-Jones broad tape,