Margin Rules Seem Wisely Tolerant

Federal Reserve Regulations Will Permit Immoderate Speculation, but Force No Liquidation; Stock Exchange Has a "Brain Trust"; Aristocrat Flouts Despondency

By Robert Winsmore


Acme
John M. Hancock


Keystone
George H. Houston


Fred I. Kent


A. A. Berle, Jr.

WITH timely understanding and practical wisdom, the Federal Reserve Board has put only a minimum of restraint upon reasonable stock-market speculation.

It has conformed exactly to the standard named in the new Securities and Exchange law by fixing 25 and 45 per cent. as the range of the margin which a broker must demand and a client must provide when a speculative transaction in stocks is inaugurated. It has done very little more in the way of margin regulation. In fact, it has thoughtfully refrained from doing much that Wall Street has feared.

Surprizing, perhaps significant, is the Board's specific restriction of the 25-45 per cent. margin requirement to initial transactions only. With tolerance that is also shrewdness, it has refused to name any percentage that must be maintained thereafter. Therefore, nothing in the new code will compel a broker to sell out a client's stock because the market value has declined. That is left to the broker's own judgment, or to the rules of the stock exchange of which he is a member.

Thus, no liquidation of speculators' accounts is to be forced by Federal authority, even when margins have been reduced to dangerous thinness. There will be only prevention of new ventures by those who have not ample financial strength to undertake them.

New Federal Margin Rules

That is the basic principle of the new Federal margin rules which the Reserve Board and the Securities and Exchange Commission will apply to public speculation on the stock exchanges on October 15. It is far more temperate than anticipated in Wall Street.

It reduces to a minimum, both now and hereafter, the danger of market disorder proceeding from enforcement of the letter of Federal requirements. It very definitely clamps a brake upon immoderate speculation by those of small means, yet gives them much protection against sudden disaster. It quite fails to set up the obstacles to normal stock-market activity of which the financial community has been so long afraid.

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Wall Street was quick to apply "brain trust" to the ten non-members who were named last week by the New York Stock Exchange as unprecedented official advisers to its Board of Governors. Newspaper men were equally prompt to hail the make-up of the important new committee as politically significant, even politically expedient.

Stock Exchange "Brain Trust"

Adolf A. Berle, Jr., it was pointed out, is a confidant of President Roosevelt, and was an active "brain truster" before he became the City of New York's Chamberlain. Also, John M. Hancock, of the banking house of Lehman Brothers, is the President's close friend, was lately an NRA official, might have been a member of the new SEC had he not declined.

As against these two, Baldwin Locomotive's President, George H. Houston, and the New York Reserve Bank's former Comptroller, Fred I. Kent, were noted as frank critics and opponents of Administration policies.

It was remarked, as well, that, as executive head of Western Union, Roy B. White has been outspoken in objection to various provisions of the NRA's communications code.

While the selection of Messrs. Berle and Hancock may have been somewhat judicious, it may be doubted that consideration of political alinements had much or anything to do with the Stock Exchange's committee slate as a whole.

All ten men who hereafter will serve as non-member, non-voting governors of the exchange have practical knowledge of Wall Street affairs. Six are engaged in banking or brokerage. Three are corporation executives. One—Doctor Berle—taught corporation law at Columbia before he took political office.

The addition of these outsiders to its councils is, of course, the Stock Exchange's rather belated answer to the long standing public complaint against too much "inside control."

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Gloomy investment bankers were pointedly reminded last week of increasing disagreement with their fears that New Deal regulation has permanently scotched profitable enterprise for their tribe. In frank dispute with the now fashionable timidity, a conservative Wall Street aristocrat, the house of Lazard Frères, threw open the doors of an affiliate organization, newly created to underwrite, distribute, and deal in corporation securities of the investment class.

Refreshing confidence was set forth in an official outgiving:

"Despite existing uncertainties the business presents unusual opportunity for constructive effort. . . . The attitude toward honest business displayed by the Securities and Exchange Commission has encouraged us in the belief that the time is opportune. . . . Those who have had occasion to follow the developing policies of the new commission have been much heartened. . . . We share the hope that regulatory measures, which in great part have much merit, may be so modified as to afford a maximum of protection for the investor and a minimum of interference with proper and conservative business."

The source makes the confidence impressive, assures that it is not impetuous. Brothers of a French family founded Lazard Frères in New Orleans in 1848. Later, they followed the gold-rush to California, resettled their firm in San Francisco, gave particular attention to the interests of European capital in the new El Dorado. The house grew steadily in importance and dignity, until, in 1884, it became the London, Paris & American Bank, and the activities of Lazard Frères were transferred to New York.

An Aristocrat Is Confident

Since then, with closely affiliated firms in Paris and London, the Lazard name has been outstanding in the field of international finance and foreign exchange. Notably able as financiers have been its successive senior partners—the elder Eugene Meyer, Charles Altschul, and George Blumenthal who, in retirement, now devotes himself chiefly to the New York Metropolitan Museum of Art.

The present head of Lazard Frères is Frank Altschul, son of Charles, still under fifty, bibliophile and liberal patron of Yale's library. To him is credited the optimistic foresight that has established the firm's new investment-banking ally, Lazard Frères & Co., Incorporated.

Baruch Denies Once More

Bernard M. Baruch, of Wall Street and Washington (vocation, finance; avocation, politics), again found it necessary last week to deny that he had accepted appointment to high public office, this time to an NRA chairmanship. He has been making similar denials at intervals ever since he became nationally prominent as a supporter and adviser of Woodrow Wilson more than twenty years ago. As a matter of fact, Mr. Baruch persistently has refused office, and usually for the frankly avowed reason that he was essentially a speculator and wanted to remain one. Once he might have been Secretary of the Treasury, and it is said that President Wilson was not well pleased when he refused.

When the country went to war, he shelved his speculating, became chairman of the War Industries Board, later went to Paris to aid in the arrangement of the peace. After that, he returned to speculation. To the Roosevelt Administration he contributed his two lieutenants, Brig.-Gen. Hugh S. Johnson and George N. Peek, but not himself. Now, doubtless with a shrewd twinkle, he has turned his back on Wall Street, and gone uptown to devote his time to writing an autobiography.

The Treasury's Purpose

Wall Street conservatives are finding comfort in the increasing indication that no further move toward currency inflation is likely for months to come. Particularly welcome to them was Secretary Morgenthau's disclosure that the Treasury is contemplating comparative long-term financing in December. That would seem to imply quite clearly that no revaluation of gold or silver, or experiments with paper money, will be mentioned by Washington in the meantime. With nearly a billion of one-year certificates of indebtedness maturing just before the end of the year, and with the intent to refund them into longer-running obligations if bond-market conditions then are favorable, it is a reasonable assumption that nothing will be done to cause fresh unsettlement with respect to the future value of dollars.

Silver Trading Goes to Canada

After the Nationalization of All Domestic Stocks of the White Metal by Presidential Decree, Speculation Travels North

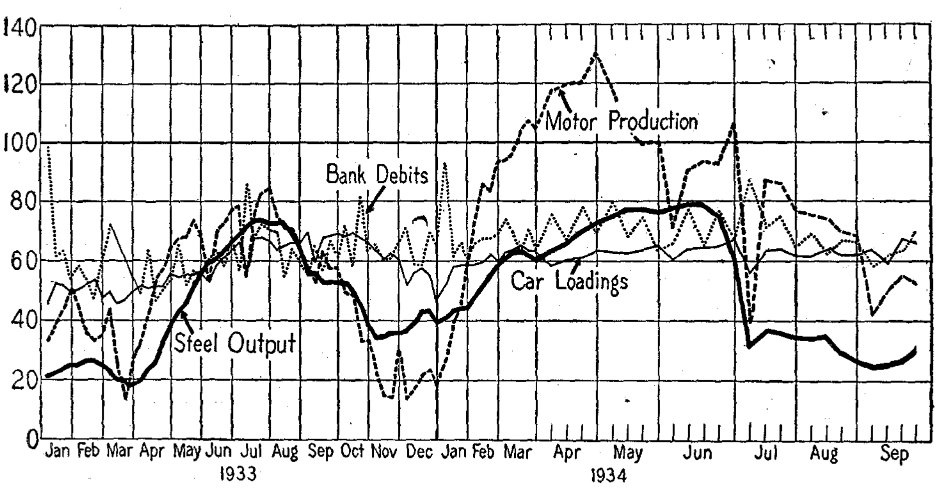
On the one hand are assurances at Washington that neither destruction nor alienation of legitimate markets on the country's exchanges is contemplated. On the other is the bald fact that one such market in New York already has been destroyed, and that American interests have turned to Canada. The market is that for future-delivery contracts in silver.

Brisk trading in such contracts on the Commodity Exchange in New York ended abruptly, automatically, when the President's decree nationalized all domestic stocks of silver at a fixed price approximating fifty cents an ounce, and also imposed a tax of 50 per cent. upon all future profits gained from dealings in the metal. Altho not illegal, a revival of the business within the United States now is virtually impossible. In competition with foreign markets, the tax is prohibitive. There would be constant danger of another Federal valuation, and seizure of such silver as would have to be on hand to provide for the fulfilment of contracts.

A market for silver futures will be opened in Montreal, it was announced on Sunday night by the Provisional Governors of the new exchange. It will be primarily for use by the American producers, banks, foreign-exchange factors, speculators who formerly did their business more conveniently at home. International operations in silver that heretofore were between other world centers and New York now will be between those world centers and Canada. And representative Wall Street brokers—this being noteworthy—have had most to do with the promotion of the new Canadian enterprise. New York interests will be represented on the Board of Governors of the new organization.

Chief promoter, altho officially a mere adviser, has been J. Chester Cuppia, partner of E. A. Pierce & Company, Wall Street's biggest brokerage house, whose elaborate private-wire system extends to branch offices in three Canadian cities. Expert in the machinery of commodity markets, Mr. Cuppia shares credit with Henry Hentz & Company's Jerome Lewine for having first organized New York's individual exchanges for contract dealings in rubber, metals, silk, and what not, and for having then combined them to form the present New York Commodity Exchange, of which he is vice-president.

Mr. Cuppia has been arguing eloquently that an American market for silver is a world-wide need. If it has been destroyed and can not revive in the United States, it must be recreated somewhere near New York, he has urged.



Four Indicators of Business Activity

This chart shows in percentage of deviation from the basis of weekly average for 1923-1925, inclusive, steel ingot production in percentage of total plant capacity, total freight car-loadings, bank debits outside New York City, and automobile production. It covers the week ending September 22

Return to Gold Basis Urged

A return to the gold standard as the only basis for "real or permanent recovery" was one of seven points urged upon the Federal Reserve Board by the Federal Advisory Council in a report made public in Chicago on September 27. The Board announced the next day that it had advised the Council that the matter was outside the jurisdiction of both.

The Council had recorded the following convictions which are excerpts from the text of the statement:

"1. That no real or permanent recovery can be had . . . until the country has been placed on a sound financial basis . . . and that such sound basis necessarily implies a standard gold dollar of definitely and permanently fixed gold content. . . .

"2. That a currency of fluctuating value will not materially affect the general price level, nor will it adjust the discrepancies between the prices of various commodities. . . .

"3. That a well-formulated and definitely stated program for balancing the national budget . . . is essential.

"4. That a serious factor of rapidly increasing importance is the tendency of business enterprises directly conducted by government agencies to reach out further and further into fields heretofore occupied by private capital, thereby destroying taxable values.

"5. That steadily mounting government debt, particularly when not accompanied by increasing national income, constitutes a dangerous threat to public credit . . . vital to the country's welfare. Rigid economies should be enforced . . . spending can not of itself bring about prosperity.

"6. That the currency and credit now . . . available are ample for an expansion of business far exceeding any which the country has yet experienced . . . that the demands for . . . inflation . . . rest upon reasoning again and again proved . . . to be a tragic illusion.

"7. That the threat of inflation is a threat to every prudent man and woman who, by honest work and intelligent thrift, has accumulated a savings account against old age and want . . . The history of every country in every age where inflation has been tried has been the same. It ends in utter disaster for every class but one . . . the speculators. Except for disastrous war and destroying pestilence, no greater calamity could come upon us. . . ."

The Council's statement followed a meeting with the Federal Reserve Board in Washington on September 18, but it was denied that these points were discussed at that time.