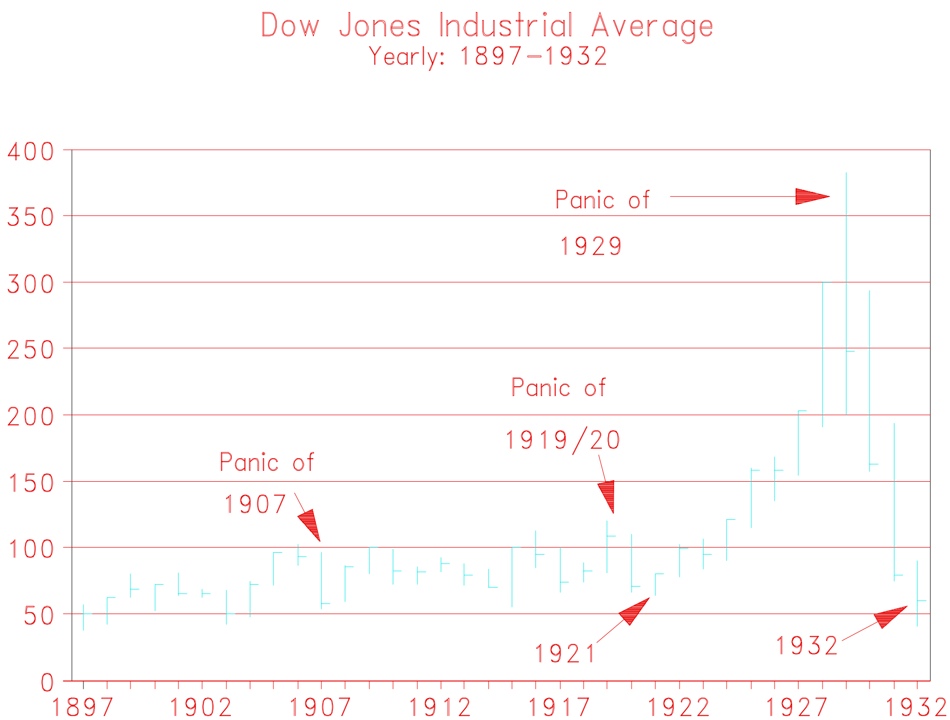
# Chapter IX

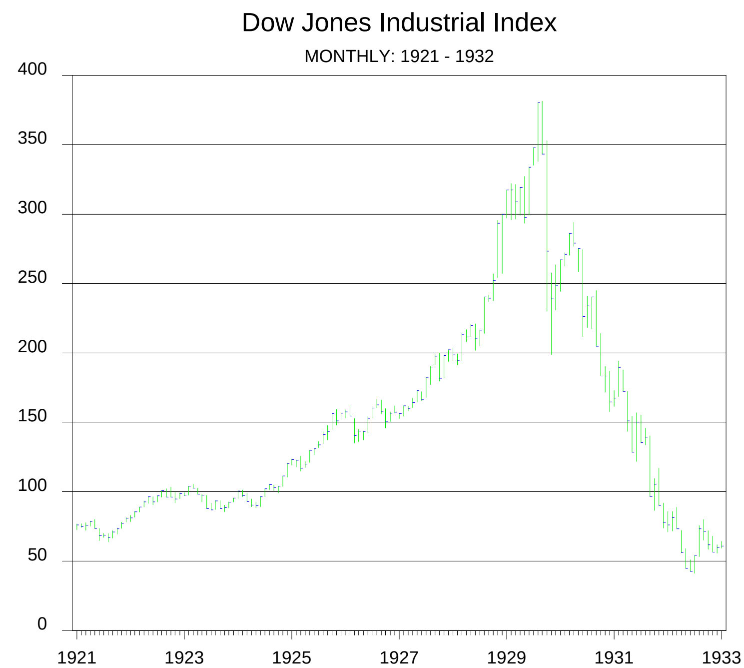
# 1929




The mere mention of the year 1929 sends shivers down the spine of perpetual bulls who immediately pronounce that such events could never take place ever again. Others rub their hands in pleasant contemplation of the events of 1929 and pronounce warnings every October that this is the year when 1929 will be relived. What is it that divides analysts and economists alike into two separate schools of thought that are as different as night and day? Are there justifications for worrying that a panic such as that of 1929 could possibly take place again? Or are such rumblings totally unjustified and merely a ploy to sell newsletters?

We have reached that infamous year after scrolling through the annals of time on a month-by-month basis. We have looked at and read first hand the accounts of the free press. We have seen for ourselves that the early stages were not the wild speculative madness which most would have us believe. We have also seen the fears and the dreams, the concerns and delights, along with the harsh, cold facts from the past that somehow ring a familiar bell. We have scrutinized this analysis and torn apart many supposedly infallible relationships. We have come to a better understanding of what really happened on a month-by-month basis, an analysis which has simply never been brought to light before.

We have come to realize that the pictures painted by most writers of this period have grossly misrepresented the era. They have unfairly focused upon the final year in which speculation did run far ahead of rea-

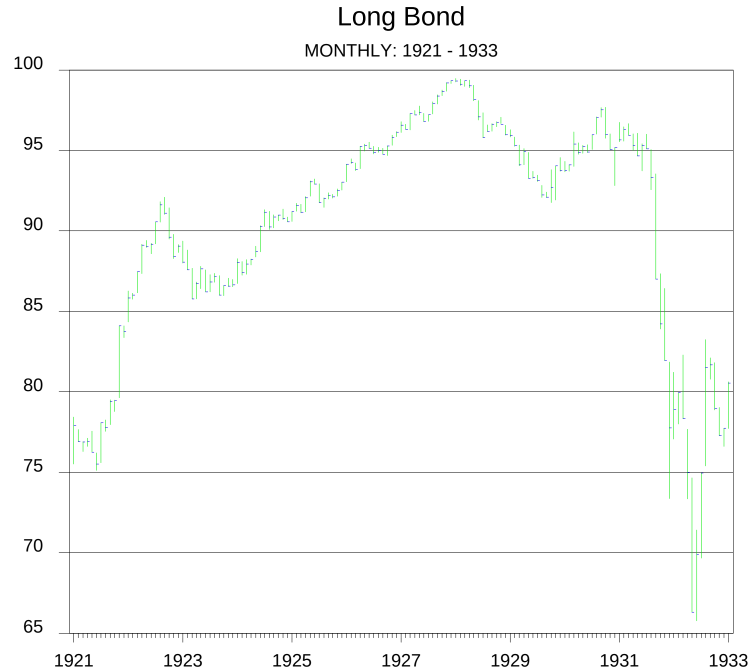



son. Yet one would also be left with a distorted idea of using the last few months of the gold and silver bubble in 1980 to describe the entire period of that bull market, which ran between 1970 and 1980. In this respect, those who have focused only upon the last few months of this bull market and the following crash have done a grave injustice. If we do not understand how this market arrived in 1929, then we would never know if a crash of this magnitude would be possible again or not.

What is the value of all these words, all these thoughts, all these interpretations? The value is immeasurable. History has an uncanny quirk about it. It loves reruns. Perhaps it is merely man's way of refusing to listen to the wisdom of his parents, much like a teenager who suddenly believes he knows all. As a result, perhaps each generation must struggle through the corridors of the same school of life where its fathers once walked. The echoes of the past can be heard if you listen clearly. The question is, can we learn from past mistakes? Were there warning signs that were definitive and clearly defined? Was it all a mere nightmare or could it honestly happen all over again?

As the year 1929 dawned upon the narrow alleyways surrounding Wall Street and its various exchanges, the Dow Jones Industrials continued to rally even further. After reaching the 300 level at the end of 1928, the industrials surged even higher, closing January on a new record high at the 318 level. The market had climbed a long way from the August 1921 low where it had once upon a time planted itself at the 64 level. The relentless upward drive was still there, gaining, but at slightly more than 10% over the December 1928 high.

The railroads continued to climb and exceeded the 1928 high at last, but merely reached 158, barely a 4% gain. The bonds, which had closed 1928 miserably trying to hold the 96.00 level, improved at first in early January. They managed to rally back to 96.14, and then fell toward the end of the month, closing below 96.00 and still clinging to the edge by their fingertips.



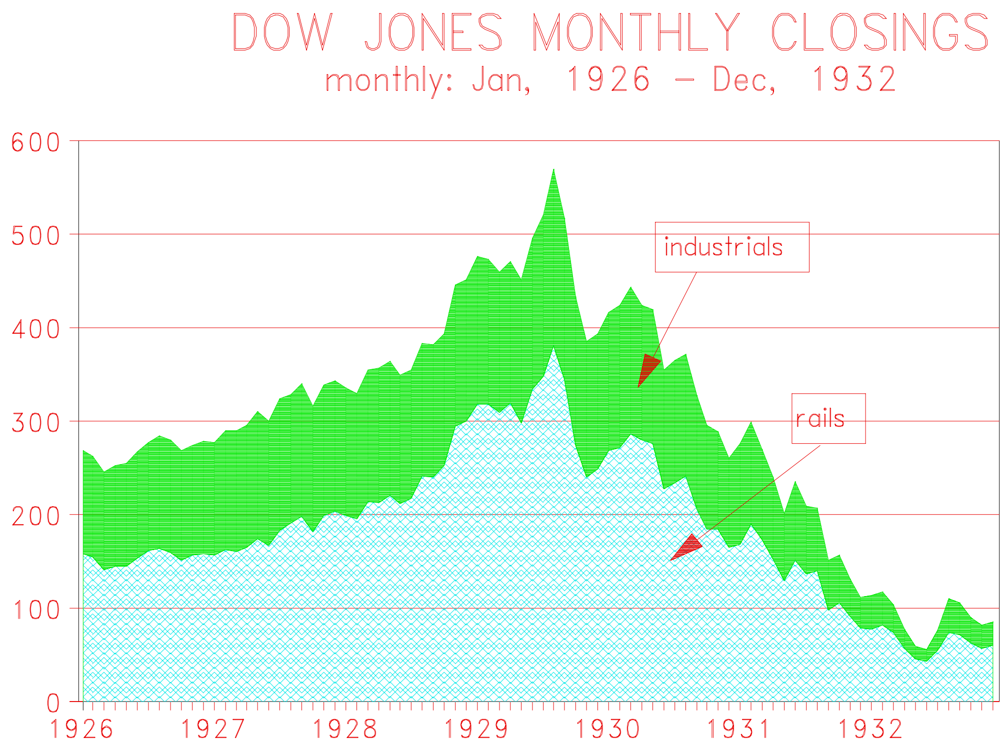

The institutional game had been growing throughout the 1928 period. Today in the 1980s we call them "institutions" or perhaps "mutual funds." In the 1920s the name commonly used was "investment trusts." By the dawn of 1929, there were 200 listed investment trusts. There were few rules or disclosures in those days. Many famous names were associated with the investment trusts, such as Walter Chrysler, Arthur Cutten, William Straus and Fred Fisher. In 1929, Time magazine defined the investment trust so succinctly that we simply couldn't do a better job. Here is Time's description:

"Perhaps the best analogy to an Investment Trust would be a hypothetical bank that had no restrictions on what it could do with the depositors' money."

According to reports, there were only 29 investment trusts in 1925. This obviously illustrates the huge growth rate in this investment sector. The trusts were not required to disclose who owned what stock and, in many cases, the collective money was used to spur onward personal wishes in the market. The investment trust would eventually prove to be one of the greatest disasters for the small, unaware investor and a primary reason for many of the SEC rules that exist today.

After the January rally, the month of February brought a continued decline for the bonds as they fell to about 95.10. This steep decline had come after a long, hard battle for the bond market since 1915. The bonds reached their highs of 96.25 during January 1917 and fell straight down into the fall of 1918, reaching 81.94. After a brief three-month rally into year end in 1918, the bonds managed to test 88.58. After that, it was virtually a free fall into 1920 where they reached a major low of 71.96.

From that moment on, the bonds made a long hard rally as we have seen in the previous chapters. 1922 brought an initial high on the corporate bonds of 92.12. After a sharp but quick correction into early 1923



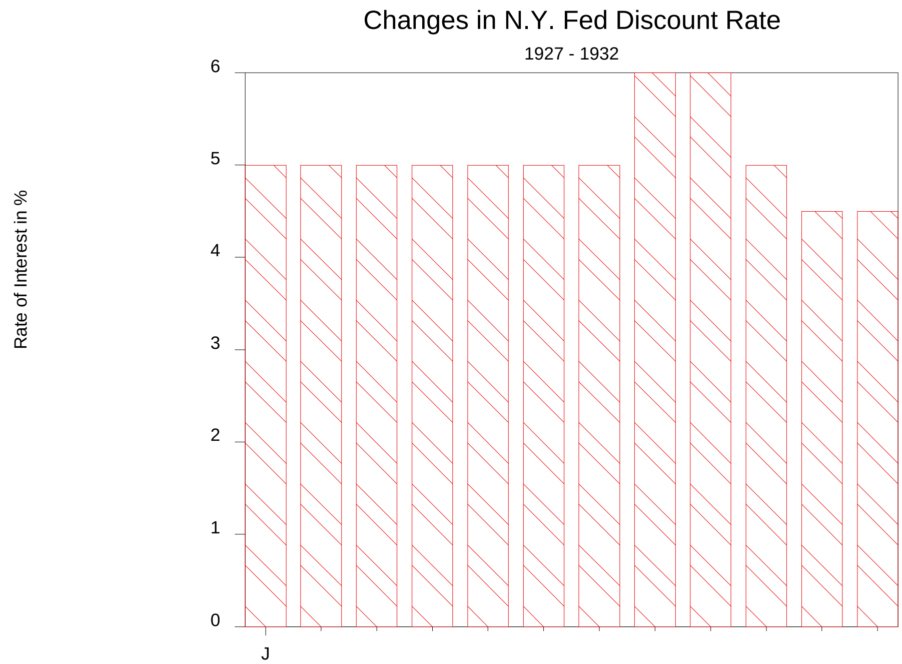

where bonds tested 85.77, the bonds began a slow but firm rally into January 1928 and reached 99.78. Therefore, the decline that took place in February 1929 was significant technically. Had the bonds been a sound investment within a long-term bull market, then they should have declined and hold the high of the previous cycle, which was established in 1917 at 96.25. After the latter part of 1928 desperately tried to hold that technical long-term support, it gave way.

The industrials dropped below the January low by 2 points and then rallied once again and exceeded the January high, closing a fraction higher. Finally, the industrials did manage to punch through the 320 level. The rails held the January low and succeeded in penetrating the January high but closed a bit lower.

With the entry of Herbert Hoover into the Presidency, the death of Benjamin Strong of the New York Fed and the resignation of Daniel Crissinger as Governor of the Federal Reserve Board, Coolidge's appointee to the post, Roy Young, adopted a different approach. Hoover stated that Young was an "able, courageous, and cooperative man." Hoover later stated in his memoirs: "Prior to my inauguration as President I conferred several times with him and found him fully alive to the situation. He agreed to use the full powers of the Board to strangle the speculative movement."

It was in on February 7 that the Federal Reserve began to make outright threats to Wall Street. Brokers' loans reached a new high of $5.6 billion and the Fed basically felt that enough was enough. Brokers' loans had stood at $3.5 billion in June 1927. The Fed came out and stated that a member Reserve Bank is "not within its reasonable claims for rediscount facilities" when Fed money is borrowed and used in "making or maintaining speculative loans." The Board also threatened to "restrain the use of Federal Reserve credit facilities in aid of the growth of speculative credit."

Simultaneously with the Fed's announcement, the Bank of England raised its discount rate from 4.5% to 5.5%. This was

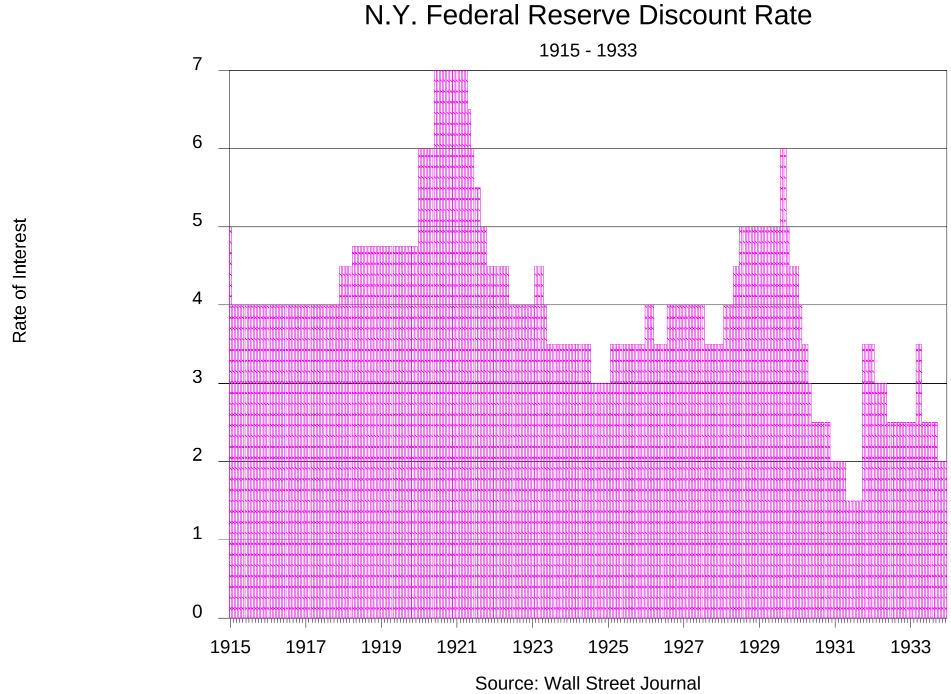



a move to decrease the flow of gold from England to the U.S. which had resumed while the New York discount rate stood at 5%. This statement in early February, combined with England's hike in the discount rate, was the cause of the early February decline. But the move did not succeed in breaking the market. In later years, some claimed that the Fed's statements were minimized by President Coolidge, who a few days before he left office, made an announcement to the press in which he assured the people that prosperity was "absolutely sound" and that stocks were "cheap at current prices."

Debate was brisk over what rights the Fed had to single out the stock market. Many felt that the entire situation had been caused by the Fed's artificial lowering of the rates to bail out a crisis in credit throughout Europe. Time magazine accurately made an observation about why the market shrugged off the finger-pointing or perhaps we should say neck squeezing:

"Speculators have long since realized that Federal Reserve authorities disapprove of their activities. The important question lies in what steps the Federal Reserve can take to translate disapproval into actual cutting off of credit. Discussions of the power of the Federal Reserve Board (as distinct from its opinions) is obscured by the popular conception of an all-powerful group of government appointees sitting in Washington and turning credit on and off like firemen playing a hose. The essential theory of the Federal Reserve System is that the member banks in each district get together, pool their resources and form a virtually inexhaustible reserve fund upon which all may freely draw. Therefore, although the Federal Reserve Board may frown upon the use of this reserve for speculative purposes, it cannot lose sight of the fact that the Federal Reserve banks are privately owned, are operating largely with private funds, and fundamentally exist for the sake of supplying money rather than withdrawing it.

"As for the discount rates, here again it is the province of the twelve Reserve banks

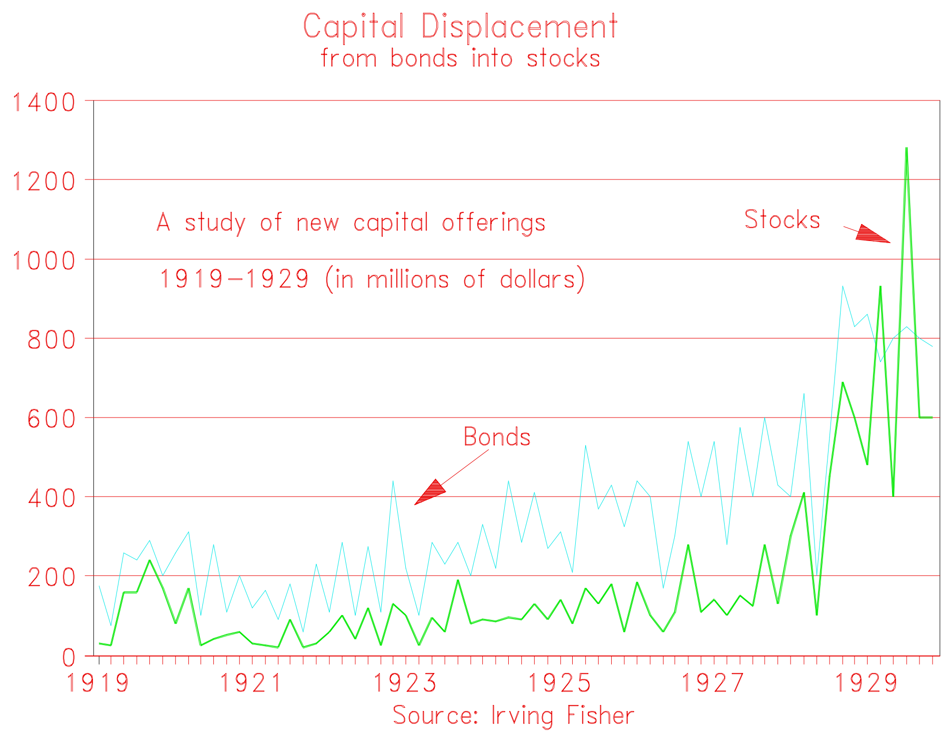



(not of the board) to initiate rate changes. Here the Reserve banks have a specific and unquestioned method of making it expensive to borrow money. But this method cannot be indiscriminately applied. In the first place, high discount rates will attract money from foreign countries (deemed to be inflationary in those days). More important, however, is the fact that the Reserve bank cannot make it harder for the speculator to borrow money without making it correspondingly harder for the businessman or the farmer to borrow money. A rise for one is a rise for all. If Wall Street pays dearly for money, so will Main Street."

This commentary sums up the attitude and the debate between the Fed and Wall Street. Was the Fed trying to blame Wall Street for its own mismanagement?

There can be no doubt that a change in Fed policy took place in February 1929 just one month prior to Hoover's inauguration. One member of the Federal Reserve Board, Adolph Miller, stated years later in a July 1935 magazine article that "after waiting for the individual reserve banks to initiate a policy of safety, the Board in February, 1929 took matters into its own hands, adopted a policy of 'direct pressure' and issued a warning to the public." It did so, said Mr. Miller, "because its anxiety over the situation had become very great." Herbert Hoover stated that the credit policy of 1927 was enacted "In hope of preventing European difficulties. But certainly, the huge budget deficits, currency inflation, vast increase in armaments, and growing military alliances (In Europe) which were at the root of the trouble were not to be cured by a poultice of inflated credit from the United States. I do not attribute the whole of the stock boom to mismanagement of the Federal Reserve System. But the policies adopted by that system must assume the greater responsibility." (His Memoirs 1952.)

There had been many bubbles burst in various commodities and the huge Florida real estate boom. No one bothered to single those markets out. The Fed had made a grave error in trying to bail out Europe. It




set off a huge series of offerings of foreign government bonds which were just lying about unsold. The people were just fed up with the foreign borrowing and decided to move cash into U.S. assets and take control in their own hands. The mere facts that the European markets peaked shortly after the time of the central bank intervention of 1927 and that the dollar itself had bottomed during March 1928, are strong evidence that foreign interests began to sense trouble in Europe and assets flowed into the U.S. stock market.

We have already discussed how much new corporate financing was taking the avenue of common share offerings. Had those offerings been in bonds, the Fed would not have had a sacrificial lamb. But as events would have it, the stock market was the Fed's whipping boy for its own mismanagement.

Also, corresponding with the hike in the English discount rate, a sizable jump of full point, news came out that Mr. Montagu Collet Norman, Governor of the Bank of England, was on his way to the States accompanying a $7.5 million gold shipment. Again, he was on his way to discuss the recent turn in cash flow and to seek a way to quickly end the flow of gold from Britain to the States. The pound had fallen sharply during his term and with the aid of the Fed's helping hand through artificial maneuvers to lower the dollar and boost the European currencies, the pound had rallied back to $4.85. But the U.S. cash shortage set off by that maneuver had cost the U.S. over $500 million in gold reserves, which had served as a base for nearly $7.5 billion in credit. Therefore, the brokers' loans singled out by the Fed were less than the credit lost by the Fed's measures to lower the dollar on exchange markets.

This is a lesson that 1929 has offered for our serious consideration today. The G-5 meetings of 1985 tampered with the free market forces to correct the effects of government's own mismanagement and to prevent a debt crisis in Europe sparked by inflated currencies and deficit spending. This may very well set off another round of higher interest rates moving into 1989 once the intervention and manipulations of 1985 break down in 1986-87. If history repeats once again, the G-5 boys of 1985 have tried nothing new. The G-4 boys of 1927 tried that same path and took a seriously wrong turn.

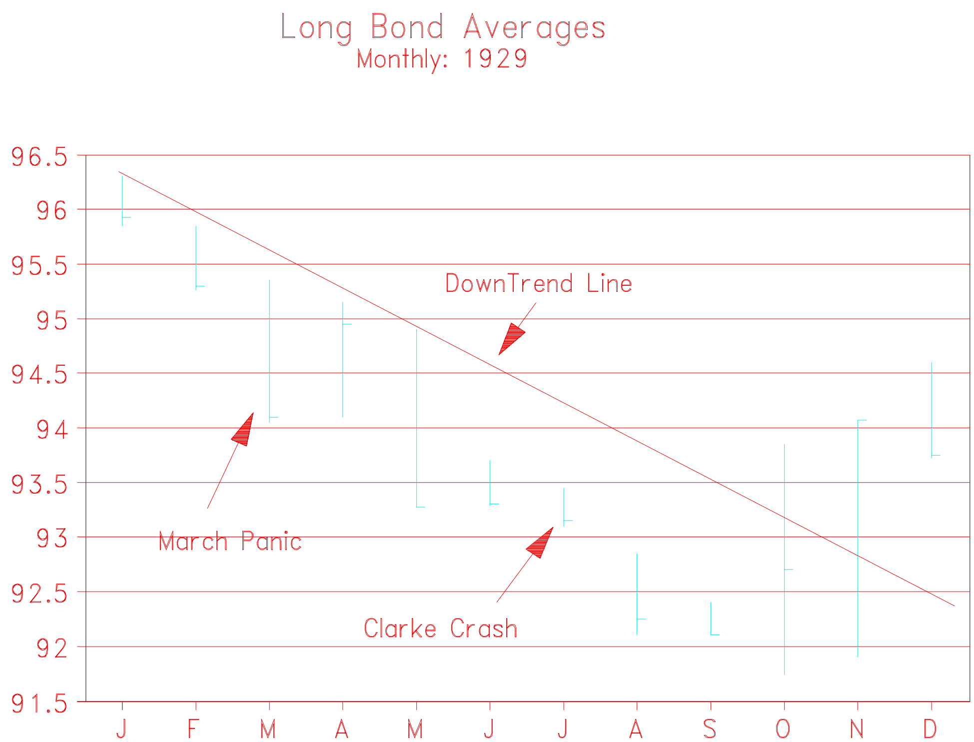
The Fed was not about to give up easily. The Fed, under a change of management and a new President, became preoccupied with bringing an end to speculation. Time magazine reported on February 25 how the Fed went crying to Congress:

"Into Congress last week overflowed the financial argument between Federal Reserve Board and Wall Street. A mingled outburst of oratory, ethics, provincialism and little economics was the result. The prevailing sentiment was strongly against the speculator. Since, however, the very Senators and Representatives who were most inclined to view Wall Street as the heart of the money octopus also regarded the Federal Reserve System as at least a tentacle of the same monster, the banker was scolded while the broker was flayed.

"The Senate passed a resolution asking the Federal Reserve Board to lay before it, such information as might be 'helpful' in securing anti-speculative legislation. It was a mildly-worded resolution, perhaps because it was edited by Senator Carter Glass of Virginia, one of the authors of the Federal Reserve Act (1913)."

The Fed, after crying on the shoulders of the Senate, perhaps realized that if it cried too much, Congress might step in and disrupt its precious authority. So the Fed used another method at its disposal. The Federal Reserve Board each week made a big deal over meetings where it purposely tried to imply that a decision would be taken to raise the discount rate. Each Thursday afternoon the market churned back and forth creating a violent and choppy trading range. But following each meeting, their comment was merely "no announcement." Week after week, the Fed employed those scare tactics trying desperately to influence the market and cause a major panic sell off. But the stock market held its ground. This was perhaps the first time in history that the Fed openly resorted to an official policy of scare tactics. This established the precedent and to this day whenever the Fed comes out and announces what it will do, 99.9% of the time it takes no such action. The Fed always acts without warning whenever it raises or lowers the rates, trying its best to make sure that no one will profit from the move. So whenever it openly proclaims what it is thinking of doing, it is unquestionably trying to manipulate the market, which is going against what its policies would like to see and what its management is incapable of accomplishing.

The Fed was not satisfied with this new tool of open verbal warfare. The Fed also began to sell government securities and bankers' acceptances, further depressing the bond market. Then member banks called in $60 million from the call money markets. Call money, which had settled back to 6.5% even with record highs in brokers' loans, jumped to 10%, a previous record high. When the dust settled, the figures came out showing why the Fed had issued its warning. The outstanding credit had increased by $250 million. But was that all due to the stock market? Could the decline in the dollar have the slightest influence? The Fed chose to blame Wall Street rather than a policy it had inflicted all by itself. Did the fact that time deposits were paying only 2% have any bearing upon the rise in call money deposits? Before the year was over, the Fed decreased its holdings of



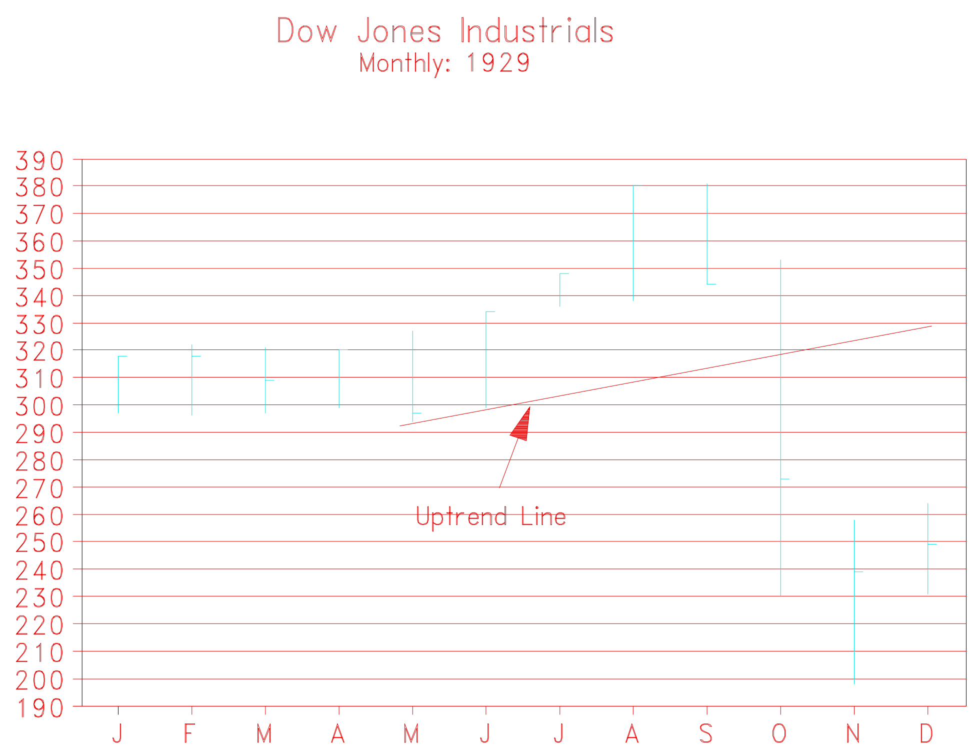

government securities by nearly 60% in its battle against the stock market.

As March came on the scene, the Dow Industrials traded sideways and remained directly within the confines of the trading range established during the previous month.

Andrew Mellon, famous for his saying that gentlemen prefer bonds, came out publicly that March with a prognostication. He basically stated that bonds, in his opinion, were very much depressed and offered an excellent buying opportunity.

Andrew Mellon was a man of honour and distinguished character and in many ways he was an outcast among the mere aggressive New York bankers. When his grandfather arrived from Northern Ireland, he had brought a small fortune which he divided into three parts. With the first part he opened a bank in Pittsburgh, Pennsylvania; with the second he bought stock in Pennsylvania Railroad; with the third he invested in real estate in St. Louis. This brought the family millions of dollars which were used for charity.

Andrew Mellon was undoubtedly a man of compassion and understanding while all the time he remained a country banker at heart. One day, an inventor came to Mr. Mellon hoping that his bank would lend him money to continue his research. The man talked at length and it was obvious that he had spent his last dime. The process he was working on would create a new industrial metal. Andrew Mellon, as the banker, told the man that his bank could only lend upon security. But Mr. Mellon then added that he personally would lend the man $10,000 on his character. The funds were expended and more was needed, which Mellon provided. When the process was perfected and a production plant was necessary, Mr. Mellon called the inventor in and told him that he would put up the several hundred thousand dollars that were needed and it was up to the inventor to say what his capital was worth. The inventor asked Mellon why he did not foreclose upon him for he had no way to repay his



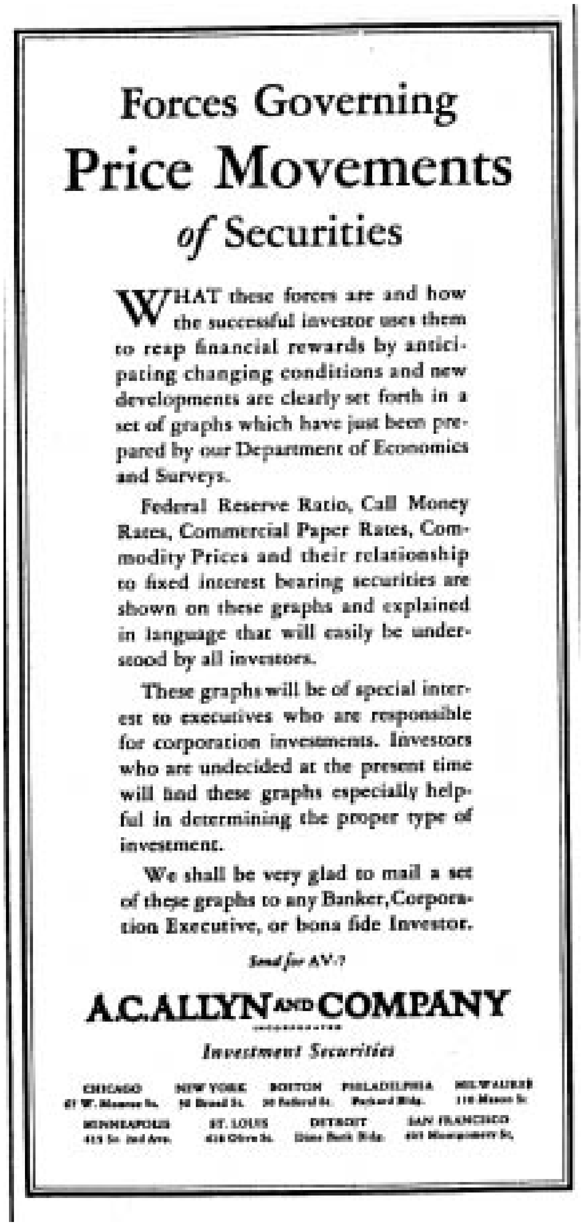

outstanding debt. Mr. Mellon simply replied, "The Mellons never did business that way." The inventor offered a 50-50 split and Andrew Mellon agreed. The American aluminum industry was born that day.

Andrew Mellon had a reputation as a conservative, and his philosophy was always to treat his fellow man with dignity and respect. This reputation did not serve well for a prophet of the bull market.

Mellon, long a bond advocate rather than a speculator, actually helped the stock market and hindered the bonds. Wall Street had never viewed his opinion to be of particular interest. However, in this case, they felt that if he was advocating buying bonds, that meant he must have thought that the Fed wasn't going to raise the discount rate. Many stocks jumped 25% as the bonds sold off.

During the last hours of March, the call money rate jumped to a new record high of 14% for the last nine-year period. The banks had withdrawn another $25 million from the call money market. The next day (March 26), call money opened back down at 12%. It rose again, establishing a new high of 15%. Some of the favorite speculative stocks were hit hard, many showing declines of 10 points or more. Call money continued to climb, reaching 20% as the casualties mounted that day and some investors were forced into liquidation which had grabbed the bull by the horns. But by the end of that eventful day, many stocks rallied sharply even with call money at 20% as shorts bailed out. Confusion among the fundamentalists continued to mount.

The shorts, made up of the "professional" traders, had been convinced that they had picked the top and the ranting of the Fed would break the market sooner or later. But as the trading approached the final hour, the stock market, as if guided by some invisible hand, rallied once again with a vengeance. Order takers were dashing around; the ticker fell far behind. Only those on the floor knew what was happen-

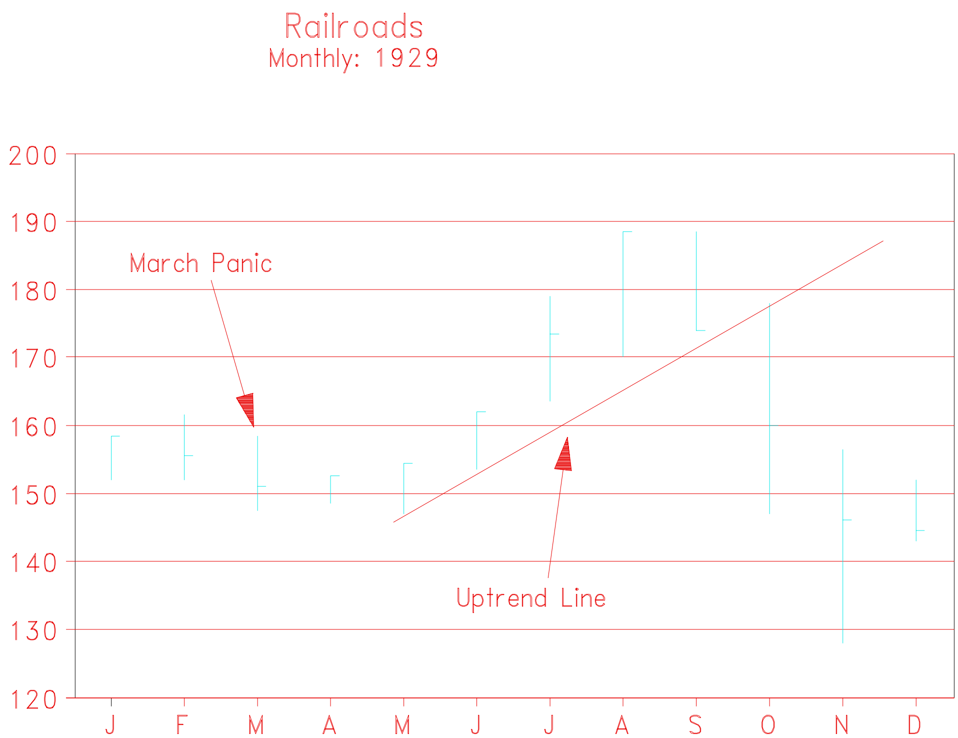



ing. Pure panic showed in the pale white faces of the professionals as they ran for cover. In the end, many stocks closed above where they had opened. The swings were violent. Some stocks had dropped 15 to 20 points from the open and closed up 6 points on the day. But many others remained fairly well depressed. Allied Chemical dropped from its 1929 high of $305.25, closing on March 26 at $260.25. Chrysler Corp. fell to $89.75 after reaching a 1929 high of $135. General Electric fell from its 1929 high of $262 3/8 to $219. Montgomery Ward fell from $156 7/8, closing at $114 5/8.

Granted, throughout the bull market many strange and new issues had come on the market. Anyone who has driven through Staten Island or along the Belt Parkway en route to John F. Kennedy airport in New York will recall the sight of thousands of mausoleums which line the highways. A new issue hit the market at about this time with units being offered at $106. It was Mausoleum Corp. of America. Even the graveyard business had taken the public route.

March was torn from the calendar pages of 1929, and April suddenly appeared on the scene. What would it reveal? Devastation or another untold rally? As call money remained high, so did the stock market. The Dow Industrials still traded sideways, consolidating in the midst of confusion while engaged in a battle to the death with the Fed. March had closed back under 310, while many speculative stocks dropped 15% or more. The market churned back and forth with debates still emotionally heated on both sides. But the Dow Industrials rallied again and reached the highest monthly closing in history, just a fraction below the 320 level. But despite the highest monthly closing, the February intra-day high had remained untouched.

March had brought a higher degree of panic to the transportations, which at that time had been called the rails. April continued to rain on their parade, keeping the rails quite depressed. Many speculators had been playing the railroads because they had always been the leading segment of the stock market. The huge bull markets of the




early 1900s were built upon the back of the steel rails that at last connected the United States from one coast to the other. But this bull market was different. Those who had thought that there would eventually be that moment in history when the rails would rally and snatch the load from the young upstarts that made up the industrial group were being slaughtered. New highs in the industrials did not mean new highs for the rails. This factor eventually vindicated Schumpeter's theory of innovation. The previous bull markets were built upon the railroad innovation. But the bull market of the 1921 to 1929 era was built upon the innovation of the automobile industry.

March had brought sheer devastation to the bond market as it collapsed from above 95 to test almost 94. As call money went higher, the bonds simply buckled. Many a trader had shorted the bonds and bought the stocks purely on his conviction that the Fed had blown the economy through its helping hand, which this time they felt had stretched out much too far. But as call money eased to some extent and stocks steadied, many were forced out of the spread and the bonds rallied in April. For one brief and shining moment, the bonds exceeded the 95 level for the last time in 1929, but closed the month of April below that magic psychological barrier.

As May appeared, the bonds collapsed violently. Bond traders literally ran for cover. It was a collapse far worse than ever before, which reminded one of the panic in the bond market back in 1917. The bonds fell from nearly 95 to 93 in a single, straight downward thrust. If there was ever a time that would have brought a tear to the eye of even the most reputed bond bull, such as Andrew Mellon, it was May of 1929.

Time magazine reported the early stages for the first week of May as follows:

**"AGAIN, ZOOM"**

"Possibly unchastened, but certainly cautious, the Stock Market last week edged its way back across the four million shares a day mark, succeeded in maintaining a bullish though still rather bilious, complexion. Yet only the memory of its recent crisis, plus the still large, though lately deflated loans to brokers, could have kept the Market from lowering its horns in another bull stampede. For of bullish portends there was no end."

May brought with it a procession of bigger and more lavish corporate earnings. General Electric posted a "net" profit of $13,862,298 for the first quarter of 1929. It was an all-time new record. U.S. Steel production exploded from its 1928 year-end performance of 96% capacity to the full nine yards, 100%! Even the less dominant steel producers were running at 98% capacity. News also broke that AT&T had become a $3 billion entity. Where would it all end? Were the warnings and ranting of the


Federal Reserve justified? Were brokers' loans sucking up too much capital, diverting it from industry and threatening the entire stability of prosperity? Well, you couldn't support that argument looking at the earnings and production figures that were coming out. Industry was forging ahead at full steam! How could the Fed justify pointing the finger at the stock market as the root of the cash bullion withdrawals and tight money? If a true age of prosperity ever existed, was it not 1929 with U.S. Steel at 100% capacity? Let's face the facts. Fundamentally, industry was at an historic, profitable production level. If stocks should rally, it would be logical to find such a rally when industry is at its prime rather than on the last stop of depravation.

May continued with many news topics that highlighted government's participation in the entire event. In New York, a hefty gasoline tax was being imposed. The taxi drivers screamed and warned that the excessive rates would force them out of business. Fares had to be raised nearly 20% in a single move due to increased taxation. The battlefront between government and the private sector expanded to many areas, not merely the stock market. The depression would be caused in part by the excessive increases in taxation and the tight money which had flowed to Europe due to the Fed's intervention.

The Presidential committee on unemployment, which began in 1921, finally released their prognostication in May 1929. "All Is Well," they proclaimed. "No serious cyclical fluctuations have characterized the period under review." This was very well outdated and of no essential significance, although this report was welcome news for the bulls.

In June, the rails rallied and exceeded the February 1929 highs, and they managed to sustain it, closing on the highs at the end of this month. The bonds consolidated within a half a point range but remained hugging just above the devastation which created the low of May. The industrials rallied that month, taking off from just a fraction below 300 to nearly 335, which was a new record high. They managed to close June on the high tick, clearly above the previous five months of choppy sideways agony.

During early June, the bears spread rumors that the famed bull, William Durant, had been pressed for margin during May and that he was on the verge of bankruptcy. But bullish reports that U.S. exports of automobiles had reached a record for 1928 with some 515,000 cars landing at foreign ports was welcome news. The great bull market, which had been built upon the back of the auto industry, was clearly still the gleam of the bull's eye. The numbers of cars registered around the world in 1928 were as follows:

| | |
|---|---|
| **United States** | **24,493,124** |
| **Great Britain** | **1,128,200** |
| **France** | **1,098,000** |
| **Canada** | **1,061,830** |
| **Germany** | **531,000** |
| **Australia** | **516,695** |
| **Argentina** | **310,895** |
| **Italy** | **177,330** |
| **Brazil** | **165,200** |
| **New Zealand** | **151,454** |

The above list is reflective of world economic strength in itself. This clearly illustrates that the United States was indeed the land of opportunity and the wealthiest nation on the face of the earth.

The market continued to rally into July as news of record car loadings hit the press. In those days, car loadings at the railroad were viewed as a good indication that the economy was moving. This interpretation was based upon the fact that it was the railroads that delivered cars, wheat, corn and numerous industrial products from manufacturer to retailer.

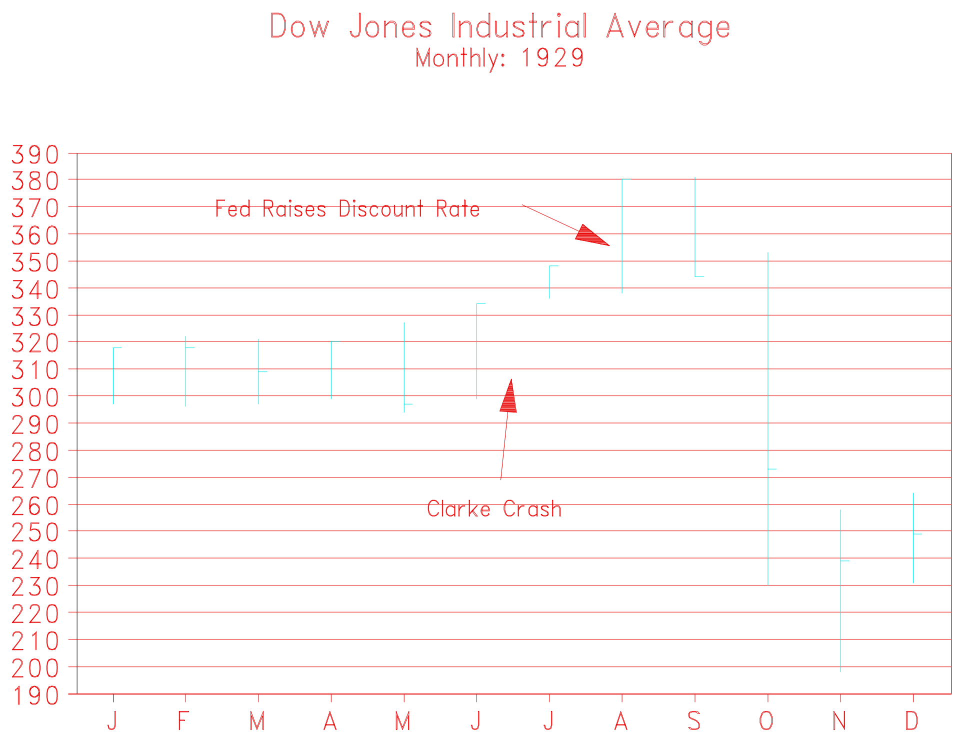
Time magazine reported the comments of Arthur Cutten, famed bull market player, on July 22. When asked about the market, his comment was: "The two things a man needs most to play on the market are nerve and vision. People say that the bull market of the last four years has caused an overvaluation of all stocks. I don't think this is true. It was true in 1922 when industry was overinventoried. But in the closely knit organization of business today, stock prices can't far overrun their real demonstrable value." The fact that stocks would eventually fall to 10 cents on the dollar by 1932 proves that Mr. Cutton's beliefs were false. When it comes to market movement, logic has never stood as an important factor in the final hour.

The market began to run up to new highs, once again for another reason. Banking! The foreign loans naturally caused some concern for the stability of the banks. This is perhaps understated for the time. But when the "Clarke Crash" took place in mid-1929, people began to think twice about leaving money in a bank altogether.

Time magazine appropriately wrote of this incident and how it affected the sentiment of the population at that point in time:

**"CLARKE CRASH"**

"Many a Manhattanite last week began to think that putting savings in a sock was perhaps not such a foolish idea. Just as State officials were making a final report on last February's City Trust Co.'s failure, their statements shared headlines with first in-

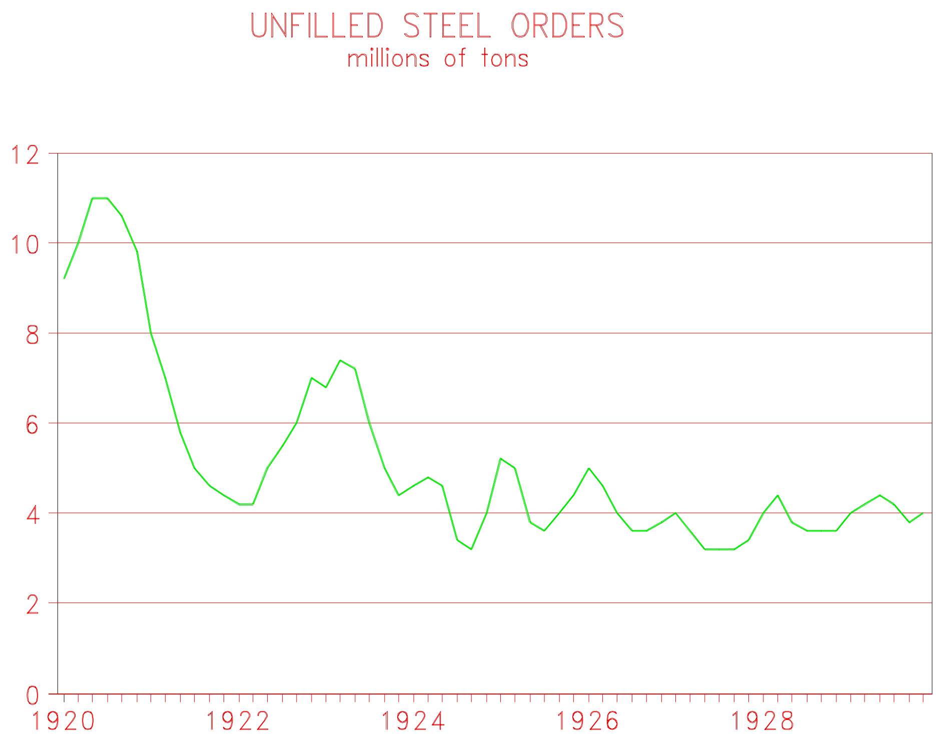



vestigation of Clarke Brothers, another Manhattan banking firm, which last fortnight closed its doors. First reports put the Clarke failure at $4 million and gave depositors hope of getting 25 cents on the dollar. Later it seemed likely that the failure was for $5 million, that 5 cents on the dollar was the probable figure.

"Clarke brothers (James, Philip, Hudson, Clarke and John F. Bouker) announced that they would do everything they could, at the same time refusing to answer many an investigating question and showing few symptoms of real cooperation. Investigators for Irving Trust Co., receivers, quickly discovered that the listed assets of the bank had little meaning. Their bad bonds, bad oil stocks, bad loans. There was a credit of $840,000 against the Now York Port Terminal Co., a company which was said not to be operating if it had ever been formed. Also the brothers had apparently borrowed $404,995 from their own bank. Thus while Clarke brothers claimed assets of $5 million the actual value of these assets was figured at a minimum of $640,000 and a maximum of $1,830,000. There are some 3,000 depositors, none of whom will receive anything for at least three months. Six depositors said their deposits had been accepted the day before the bank closed.

"Layman who think that banks are all alike, wonder how the State Banking department had permitted Clarke Brothers to get into such a dreadful condition. Explanation lay in the fact that Clarke Brothers unsupervised, belong to the class of banking institutions known as 'private bankers' which do not have to be supervised as long as they do not describe themselves as 'banks,' do not accept deposits that at anytime run under $500, do not transmit money or negotiate notes. The $500 minimum deposit regulation passed in 1914 is supposed to keep widows, orphans, and other 'small' depositors out of such banking houses. Present day prosperity permits many to save $500 without having good banking judgement.

"Because Clarke Brothers conducted a private banking business they have been




erroneously described as a 'private bank.' A private bank is really an entirely different kind of institution. It is fully supervised. It carries on a restricted specialized business. Example: R.H. Macy's Manhattan department store is a private bank because it accepts deposits, pays interest, is in the banking business, but it is primarily a department store and its depositors are its customers.

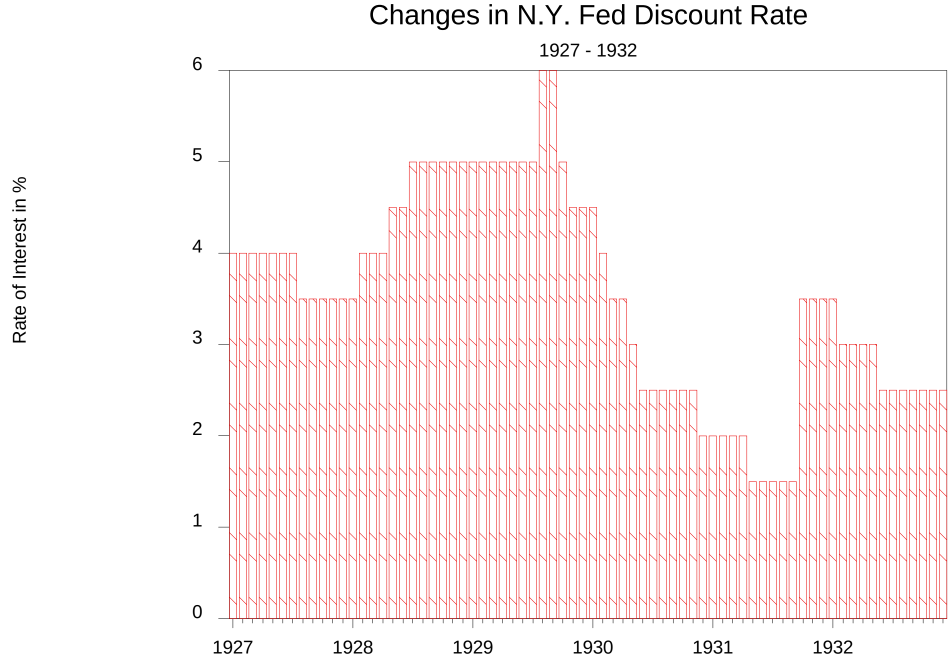
In all sectors of banking. Some began to attribute the rise in interest rates to the cash shortage originally sparked by the Fed. Others began to become concerned that may be a time bomb was ticking away. The stock market began to look even better. They knew, for example, who was making money and who was not.

In July, U.S. Steel announced that its earnings for the first half of 1929 were $94 million compared to $87 million for 1928. Still the upward trend in corporate earnings was clearly intact.

The new issues were still pouring out. In July 1929, the famed department store of Bonwit Teller & Co. went public, offering 60,000 shares of preferred at $52. While new bond issues floated around begging for takers, stock issues were sold on the mere opening of the book.

The activity in the stock market was still brisk despite the groans that could be heard from the Fed on each and every new high tick. Nonetheless, the exchange approved what was then termed "floating brokers." This new term applied not to some vagrants, but to the opening of branch offices on board the oceanliners. The stock brokerage firm of De Saint Phalle & Co. was approved to open offices on the French Line ships. Now you could trade stock on your way to Europe and back.

The real estate market was a poor investment. Those who had real estate which was deemed to be worth $50,000 were forced to take $25,000 or even $20,000 if they needed immediate cash. The easy liquidity of stocks had depressed the real estate market




as an investment, as had the high interest rates. In New York, a group of prominent Manhattan real estate brokers announced the formation of the New York Real Estate Securities Exchange. The exchange was set up to operate in an unusual manner. The Realtors would issue stocks and bonds with real estate as security. Therefore, the public could trade in the securities which represented real estate holdings.

"Neither private banks nor private bankers affect the stability of the standard normal, supervised, incorporated savings banks and trust companies which constitute the type of bank which the public recognizes as such and in which the public has many a safeguard for its money."

There were numerous banking operations in those days and the Clarke failure is perhaps an example of the instability which existed within the financial community. Banking failures were now on the rise and in Florida 25 banks failed in a single, swift blow. The Florida incident was being excused as an isolated affair. The banks reportedly failed because they were filled with uncollectable land-boom notes. The last deposits amounted to $34 million. But an additional cause of the failure was a fruit fly which destroyed the Florida crops. The devastation was terrible and the banks, already struggling with bad notes from the land-boom era, now faced failures on the part of producers.

The banking failure stories were gaining wide publicity. Many people began to be concerned that there was a potential problem.

The war between the Federal Reserve and Wall Street had persisted since February. The Fed, perhaps lacking the authority to really take any measures, continued to harass the stock market with its verbal assaults.

We must commend Time magazine for finally taking a stand and reporting the situation as it really was in the August issue.

**"FEDERAL RESERVE"**

"Last February the Federal Reserve Board harassed the market by convening every Thursday to discuss a raise in the rediscount rate, then reporting 'no announcement.' It formally announced that 'when it (the board) finds conditions... that obstruct Federal Reserve Banks in...so managing credit facilities as to accommodate commerce and business, it is its duty...to take measures to correct them; which in the immediate situation means to restrain the use of the growth of speculative credit.' For months no more was heard. Brokers and speculators forgot. Last week when the Federal Reserve Board went into a conference, expected to last three or four days, few noticed it and fewer guessed the purpose."

The Governor, Roy A. Young, emerged this time with an announcement: "We have considered how the resources of the Federal Reserve System might best be conserved and made available to meet autumn requirements. The problem has presented difficulties because of certain peculiar conditions." The Fed raised the discount rate from 5% to 6% in one move. Only Chicago and Philadelphia refused to raise their rates.

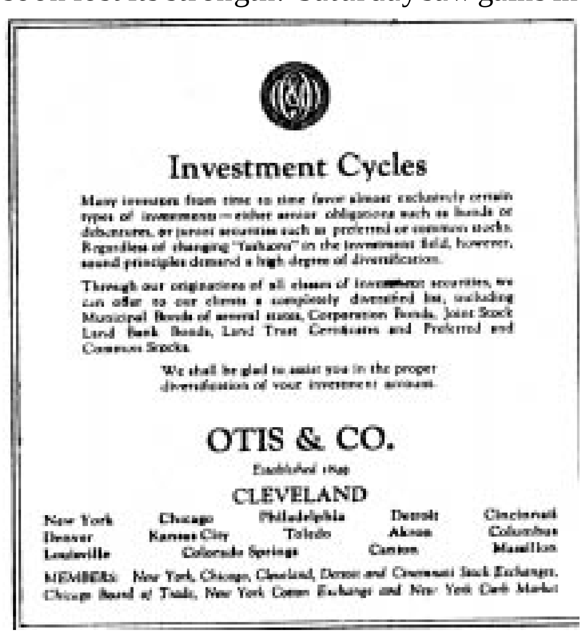
Time magazine reported on August 19th as follows:

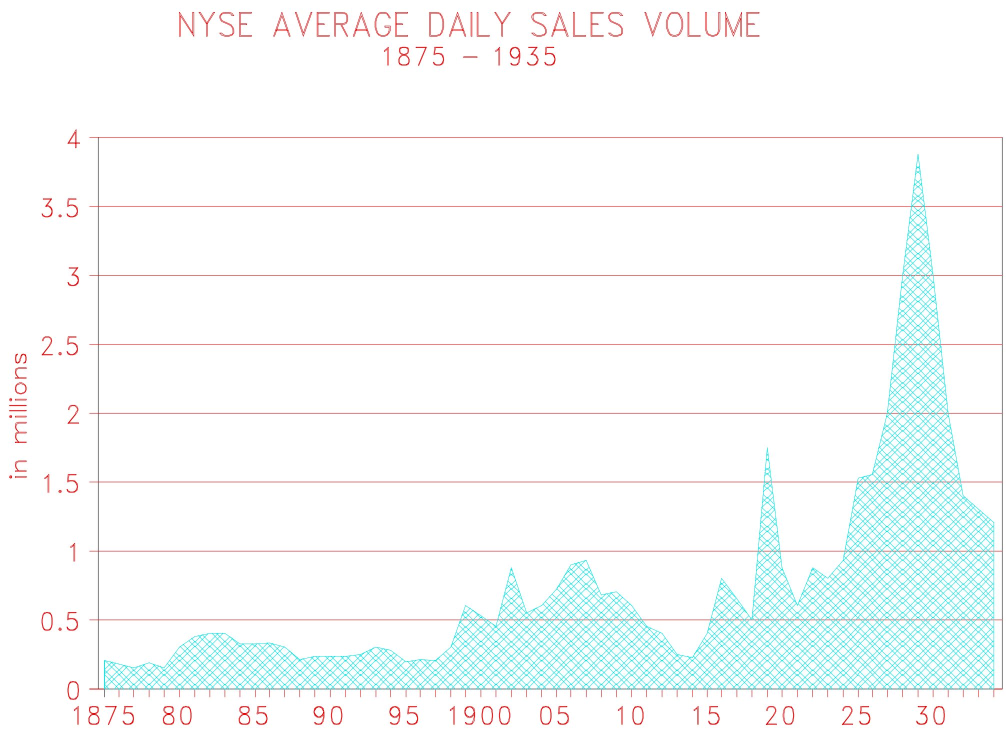
**"THE MARKET"**

"Commuters on their trains last Friday morning discussed and laid grim bets on how far the Market would fall. The Los Angeles and San Francisco markets, still open on the previous afternoon when the Board's announcement was made had crashed badly. Six hours ahead of New York, Friday's market in Amsterdam had opened with U.S. Steel plunging downward. To add to the threat of another Black Friday (Sept 24, 1860 ) was the fact that brokers' loans reached a new all time high over $6 billion. At the New York Stock Exchange, the gallery was packed with spectators by 9:30 am. Five minutes before the opening the ticker flashed. 'The floor is filled with sellers.'

"when the gong sounded, trading began with clamorous confusion. Ten thousand shares of AT&T were sold at $266, 15 points off; 1,000 of General Electric, 14 off; 11,000 American & Foreign Power, 12.25 off; 20,000 of General Motors, 3 5/8 off; 15,000 of I.T.& T., 5 5/8 off; 7,000 of Packard, 9 1/8 off.

"The New York Times averages showed a decline of $9.66 compared to the record May 22 decline of $8.12 and the December 8, 1928 break of $5.47. Through all the fury, call money ruled at a modest 8% and during the day there was a brief rally as bargain-hunters bought, shorts covered with large profits. But then the rise stopped as if some heavy hand lay upon the market, gradually driving prices back into low ground. Heavy as the hand might have been on Friday, it soon lost its strength. Saturday saw gains in






the general list. By Monday the rise, although not universal, bore up many stocks and U.S. Steel, the market leader, reached a new all-time high, $229 5/8."

The interpretation of the discount rate hike was beginning to vary. Some argued that the rise was merely an adjustment to the higher sustained levels of call money itself and that the hike was not necessarily an indication of higher future rates. Col. Leonard P. Ayres of the Cleveland Trust Co., suggested that the result might be a further expansion in credit. He pointed out that while the Fed raised the discount rate to 6%, the Reserve Banks themselves lowered the buying rate on acceptances from 5.25% to 5,125%. This actually meant that banks could profitably sell their acceptances which were normally used to finance exports and imports as well as commodity crops. This in turn would free up a lot of cash and make it available for further crop financing as well as speculation. Col. Ayres' interesting suggestion, in fact, pointed to the Fed's attempt to crack the market without actually tightening cash. Was it in fact an outright ploy for the publicity itself? On the surface that rate hike certainly appears to be precisely that, a ploy.

The month of August was actually the highest monthly closing in the eight-year bull market. Just one week from the top, we looked at the auto stocks which had led this rally from the depths of depression in 1921. The list that follows illustrates the closing prices of August 23 and the prices for which they would be selling on a 15x earnings ratio which was known as the Raskob rule:

From the high of 380.18 reached on March 26 on the Dow Jones Industrials, the market had fallen back to an intra-day low on March 28 at 370.34. But during August, going into Labor day, the industrials rallied with a vengeance once again. The industrials reached an intra-day high of 383.96 and closed the month of August at 380.33, the highest monthly closing in history. As the long weekend gave time to ponder all the scenarios of whether the Fed was tightening or not, the traders became anxious to reopen on September 3. The market fell back a little that day. reached a low point of 378.23, and then rallied to exceed the August intra-day high, reaching 386.10. Volume was again heavy, amounting to 4,439,000 shares. The next day, September 4, opened with trading becoming noticeably nervous. The market began to break, falling from 380.12 almost straight down to 376.33. Clerks were going crazy. The ticker was nearly an hour behind but again the market took a pause and rallied back to 379.61.

The following day the exchange reported the previous day's volume had reached 4,692,000 shares, the highest volume for the past two weeks. On September 5, the market rallied again, reaching 382.01 and exceeding the previous day's high. But suddenly it ran out of steam. Selling started coming from everywhere. This time the market broke fiercely and fell straight down with few up ticks in between. It was pure madness. This was surely a break far worse than most preferred to remember. The industrials fell straight down to 367.35, nearly 8% in a single daily session. If it weren't for the shorts that covered for the close, the market wouldn't have had the strength to rally by even 2 points to close at 369.77 for the day. For the next two days that week, the market held that panic low and rallied back, reaching as high as 381.44 on Saturday the 7th. It couldn't close above 380, and finally settled at 377.56.

The forces had Sunday to think the situation through. Again the Fed talked but uttered nothing significant. As Monday the 9th opened for trading, the market rallied again, reaching 380.57 in a desperate attempt to push higher. But again, nervous longs started to take profit. The market fell back to 373.49, closing near the low at 374.93.

Tuesday looked like just another day. The market opened and rallied, trying once again to push above the 380 level, but nothing doing. The high for the day stood at 379.16 and then like the dying breath of a beaten animal, the market gave up. Selling was pouring in from all over. Most people didn't know where they were filled until the next day. The market had dropped below the previous week's low, falling to 364.46. Volume was now rising but only when the market declined. The onslaught continued that week as the industrials fell to 359.70 on Friday the 13th. The market had now traded over 5 million shares for two days in a row.

The following week of September 16 to 21 saw each day trade over 4 million shares. Monday through Friday the market had held the previous week 's low, churning back and forth like a dying fish lying on the dock. The market had managed to get back up to 375.20 that Thursday but on Friday it sold off again and fell to 360.44. It was a hard battle with over 20 million shares

traded. But they did it; they held the 360 area. Perhaps tired of the struggle, that Saturday session was expected to be quiet. Indeed it was. Many traders, needing the rest, took the day off.

Saturday was only a 2 million share day. Hardly much to write about. Nonetheless, selling persisted. To the surprise of those who were there, the market cracked and fell to 359.65, which was a mere fraction below the previous week's low. Everyone excused the occurrence and said it didn't matter because it was done on little volume. How often have we heard that excuse these days. Low volume or not, the next week proved that that Saturday penetration was perhaps a ill-omen in itself, warning of what would lie ahead.

After a brief rally on Monday the 23rd of September, the market managed to work its way back up to 365.03 but fell for the close and settled at 359.00. Again each day traded over 4 million shares. By Wednesday the market had fallen to a new correction low of 344.85. The market rallied again back to 358.16 on Thursday but to no avail. It collapsed on Saturday, falling to 341.03. By the end of September the market had fallen 45 points from the 386 high on September 3.

Roger W. Babson, famed market letter analyst of the day, came out that September and stated that the market was "riding to a fall." Although after his statement the market rallied back up and people laughed, eventually he would be remembered for calling the top.

October was merely a rerun but worse. News came out that building permits for 1928 showed a 23.4% decline. Almost anything now seemed to be bearish and a reason for more selling. The Chinese started to dump silver and that shiny metal fell to a new low since the 1920 high of $1.40, this time reaching to 50.7 cents. This drop in silver broke the 1921 low and now barely held the 1915 low as silver continued to fall to 46 cents by year-end.

On the first of October, the market fell to 335.99. The market was very active and to describe the trading as nervous was definitely an understatement as October dawned upon Wall Street. October 2 brought with it a relief as the market consolidated and traders were still reluctant to give in on their battle against the Federal Reserve. But the next day, the downtrend resumed, falling to 327.71 and on October 4 the market fell to 320.45, off 23 points or nearly 8% from the close of September. The market rallied sharply on the 5th, back to 342.59 for an intra-day high on Saturday. The first week of October was not much different from the preceding weeks in September but still cries from the bulls echoed through the halls and side streets of the financial district: "Fundamentally everything is sound, nothing has changed."

The second week of October 1929 found the market reaching to 348.50 on Monday the 7th after falling to 338.86. But in general, the market hold during this second week in October, rallying back as far as 358.77 by Friday the 11th. The commentary in the general press was quite confused but definitely still more bearish rather than bullish. Yet, at the same time, the reassurance that everything was fundamentally sound remained the distinctive undertone. The Fed remained curiously silent, perhaps secretly its directors hid from the press under their typically institutional mahogany desks.

Monday of the third week, October 14, opened a little lower but the market rallied

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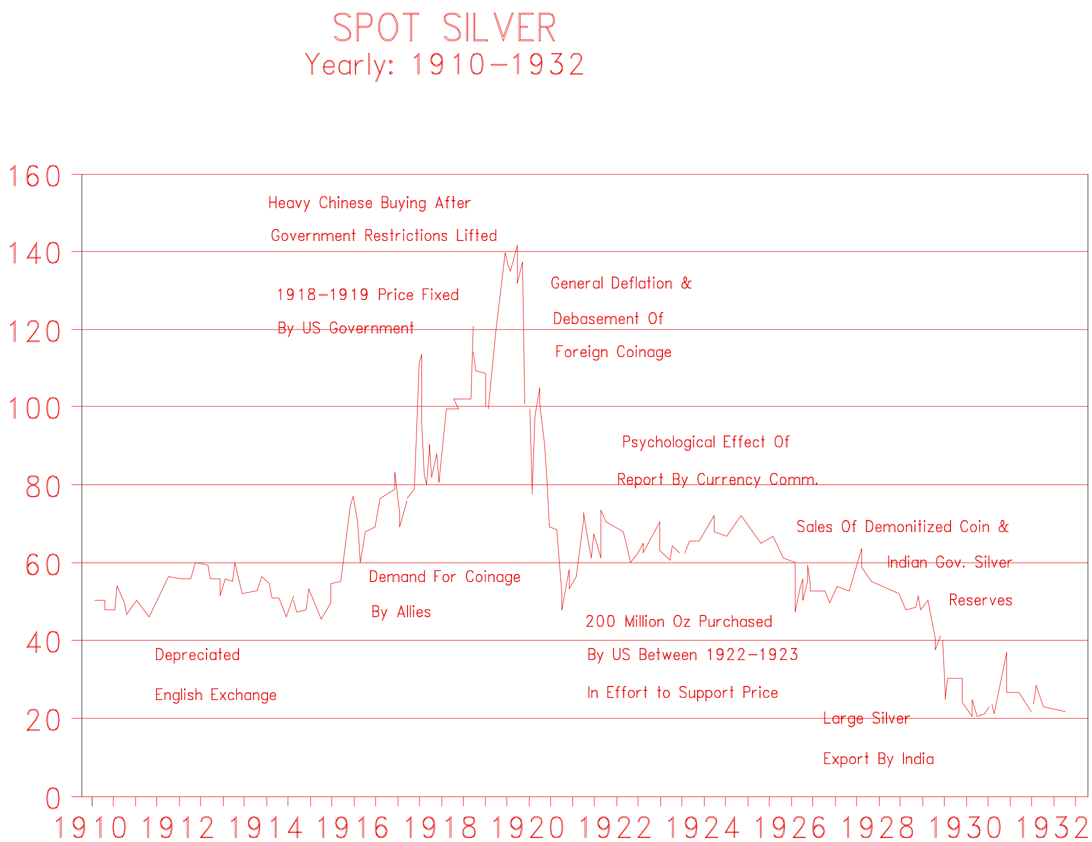



back to 358.20, closing back down at 350.97, off nearly a full 8 points from the high of the day. That was the last and fatal sign of strength for the month and from Monday onward, the market fell sharply that week. Each day brought lower prices and finally by the end of trading that Saturday, the market fell to 321.71. Readers picked up their October 14 edition of Time magazine at the local newsstand and read of the shocking goings on in Chicago as margin calls were flowing in from all sectors of the nation. The story that raised more than a few eyebrows was this:

"In Chicago many gangsters, known to be heavy speculators, received margin calls, left brokers' offices muttering threats. Dynamite was thrown into the home of one Charles H. McCarthy, manager of a brokerage credit department. Stench bombs were tossed into the offices of Hornblower & Weeks, E.A. Pierce & Co., Logan & Bryan. 'A new form of wolf has invaded LaSalle Street,' said the deputy police commissioner. 'The racketeer who responds with a bomb when he is called for more margin.'" It seems as though the mob was in the market in those days and when the trend went against them, they weren't very good losers.

The Dun's Review, issued for the week of October 7, stated the following: "Nothing has occurred to indicate that widespread trade recession is under way and statistics of railroad freight traffic show week after week, that distribution of merchandise remains at a notably high level.' Indeed, the fundamentalists remained bullish. Many signs of the economy were still quite bullish. There was no real news which indicated that the economy was about to collapse. This still led many to look at the dip as a buying opportunity yet the selling continued despite the calls from the fundamentalists who claimed that everything was just fine.

Nonetheless, General Motors stock had fallen so far since its 1929 high during the second week in October, that the total value of the stock had fallen $1.2 billion. W.P. Chrysler came out just before the break and stated that he saw no reason why automobile stocks should drop given the present rate of sales and earnings. But, the market saw no logic and delivered no mercy.

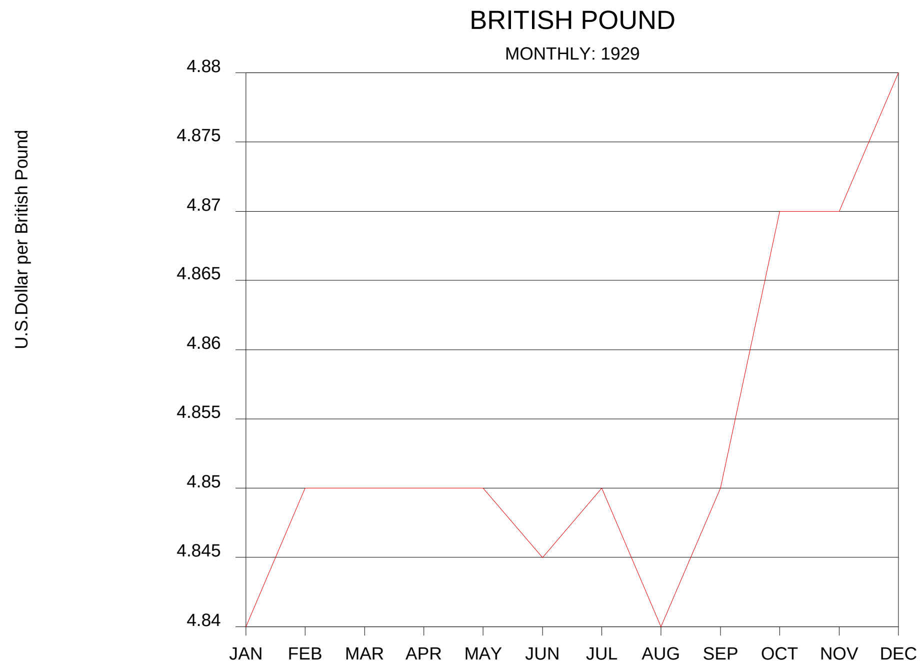
One bearish factor at this time was the speech of Philip Snowden, British Chancellor of the Exchequer, which attributed the rise in the Bank of England's discount rate to the "orgy of speculation" in the United States. Many began to wonder just how much foreign capital was taking part in the so-called American "orgy."

Some began to recall the words of Roger W. Bobson who stated that the market was riding toward a fall. Some brokers said that he was always wrong and that eventually he would be wrong again when things settled down. Commentators blamed everybody from the Fed to Bobson and everyone in between who even uttered a bearish note. But Yale University's Professor Irving Fisher uttered a few words that placed his name in history for a brief period in time. He stated: "Stock prices have reached what looks like a permanently high plateau." Colonel Leonard P. Ayres of the Cleveland Trust also came out and stated that month: "It seems probable that stocks have been passing not so much from the strong to the week, as from the smart to the dumb." The bears at last had a few more hats tossed into their side of the ring and the confidence of the bulls was beginning to crack.

Virtually everything and anything was getting hit on the slightest bit of news. One such stock was Boston's Edison Electric illuminating Co. The company wanted to split its stock and stockholders were all in favour as the stock rallied to $440 a share on the news. But the Massachusetts Department of Public Utilities unexpectedly refused to grant its blessing. Instead, it criticized the company for everything from its rates to the amount of dividends it paid, as well as the price at which the stock was trading. When the news hit the market, this stock fell to $299 a share. This was unbelievable, nearly a 40% decline based upon the remarks of an overzealous state administrator who took it upon himself to publicly state: "No one in our judgement, on the basis of its earnings, would find it to his advantage to buy it." This is the atmosphere that began to surround the market like the black cloud of death in biblical stories.

The third week of October brought no real sign of relief. On Monday, October 21, the market fell in another selling wave. The Dow Jones Industrials fell to 314.55 at one point during the day. Then news began to circulate about a big bank meeting that some hoped would stem the wide break which had taken place that morning. The ticker tape fell two hours behind and selling turned to panic as people increasingly feared what they could not see and ignored all logic and reason offered by the fundamentalists. Selling became "blind" and people would not find out where they were filled for hours on end. The bankers who met that day were called to order by the famous J.P. Morgan & Company as they gathered in their offices in Manhattan.

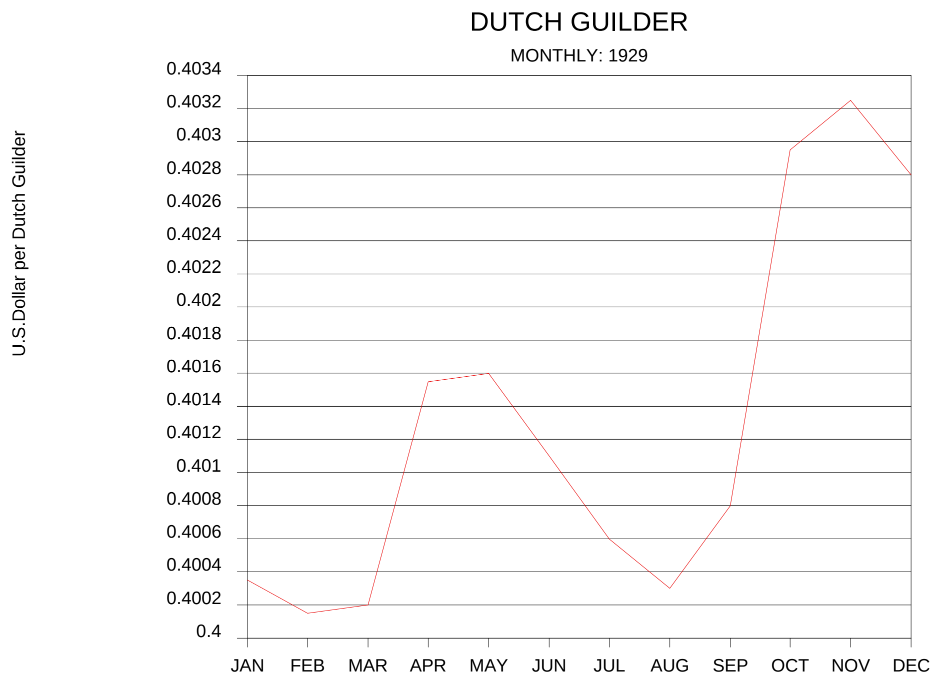
The banking meeting included the heads of four of the greatest banks in the United States with a combined asset power of $6 billion dollars in resources. Represented were the National City Bank, Chase National, Bankers' Trust, Guaranty Trust and, of course, J.P. Morgan. The market held briefly and traders hoped that the bankers were going to take decisive action. The




market traded back up, reaching as far as 329.28, a 14 point rally. Later in the day, the bankers were joined by representatives from 30 of the nation's leading stock exchange houses. Then emerged Mr. Lamont from the renowned House of Morgan and he assumed the role of spokesman for the distinguished group of financiers. The statement that was released was not one of earthshattering support and at first it was misunderstood. The bankers merely stated that the break in the market was a "technical" one and that it was not based upon anything fundamentally wrong with the market. They explained that the market was merely scared and that it had run into what they termed "air-holes" with urgent and heavy selling being met with an absence of sizable bids. But the tickers misreported what Mr. Lamont had said and it was interpreted as though the Fed would raise the discount rate again.

The market was confounded as the ticker, hours behind, only intensified the panic. No one know whether their stock was selling at the price last reported by the ticker or if it was 20% lower. The sheer fear of that unknown had intensified the selling as the blind began to load the blind. Emotionally, the lack of definitive prices made the situation far worse than it perhaps would have been. Nonetheless, the real selling that day was noted to be mostly large blocks of stock amounting to 5,000 to 20,000 shares at a clip. Many assumed it was the investment trusts bailing out. The day finally came to an end with the market closing at 320.91, about mid-ground between the high and the low of the day.

With the fourth week in October starting off with such a panic, the next day was not looked forward to by many traders at all. The headlines continued to reflect a desperate situation but the fundamentals were stressed heavily. "Serious Business Decline Unlikely" topped an article in the New York Times. This was merely one example as countless worldwide stories projected the same note of optimism. Indeed, when the next day arrived, traders were literally shaken by the previous day's action as the exchange released the volume which un-

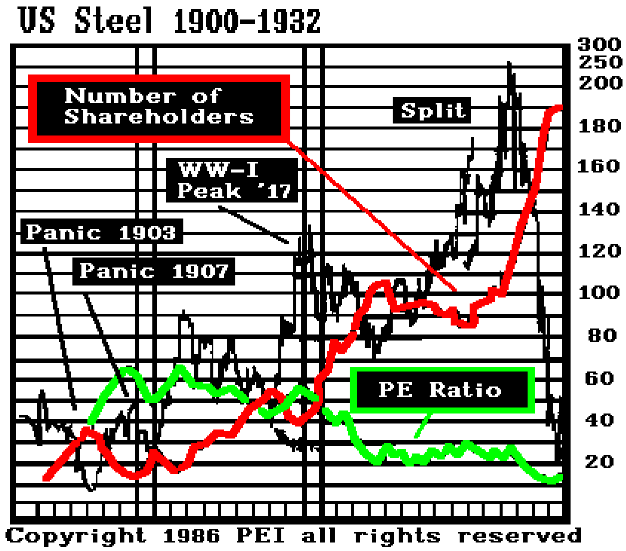



doubtedly had broken all previous records: 6,092,000 shares had changed hands.

Tuesday, October 22 brought with it a sharply higher open. The low of the day was 2 points above the previous day's closing. The market rallied straight up to 333.01 and the roar of optimism was heard loud and clear. The market found the industrials closing at 326.51 that day, off nearly 8 points from the optimistic high of the day. Wednesday, October 23 brought the exact opposite. The market managed to rally up to 329.94 but then the pressure began to build. Suddenly the market collapsed and the industrials fell drastically behind. The exchange had released the volume for the previous day, indicating that 4,130,000 shares traded hands. Obviously, the volume increased on down days and slackened off on days that rallied. This illustrated that there were still sizable long positions still holding on in the market and that further panic was not out of the question. Wednesday fulfilled that indication in style as the market closed down at 305.85 with volume once again reaching a new record of 6,369,000 shares.

Thursday, October 24 opened a bit stronger as the market rallied nearly 8 points from the previous day's close. But then again, heavy selling came into play and the market fell to 272.32 on the Dow Jones Industrial Index, off nearly 50 points from the close of the previous week. The ticker was behind as much as 3.5 hours. The devastation was indescribable. The volume was for heavier than anyone ever expected possible. The members of the exchange worked well into the night and it was after midnight when any reliable figures could be put together. The next morning the volume was released; 12,895,000 shares had changed hands. The volume clearly reflected distress selling at its height.

In the October 25 edition of the New York Times, the headlines read: "Weird Roar Surges From Exchange Floor During Trading"..."Brokers In Uproar As Market Boils"..."Senators Stirred By Market Break - King Presses His Proposal For Investiga-




tion Of Federal Reserve System." The article went on to report that the further collapse of the stock market that day caused a revival in the Senate of suggestions calling for legislative action to curb credit for speculation and for amendment of the National Banking and Federal Reserve Acts to restrict credit used in the stock market.

Along with such proposals, some of the senators advocated a detailed investigation of the Federal Reserve Banking system as proposed in the pending resolution of Senator King of Utah..."Today's activities in the market were watched with interest by senators who have been expecting developments that would create a sentiment not only in Congress, but throughout the country in favor of legislation to make it more difficult for banks to lend money for speculation and for Federal laws to heavily tax stock transfers made ostensibly for speculative purposes." Senator Glass of Virginia, one of the authors of the Federal Reserve Banking Act, found in the situation the strongest argument for pressing his bill providing for the imposition of a 5% exercise tax on sales of stock which had not been held for over sixty days. "It is his present plan to offer his bill as a 'Rider' to the pending tariff bill," the press reported.

On the same page of the New York Times on October 25, another article appeared pointing out the real winner in the midst of that panic. It was the state of New York. The state of New York earned $350,000 in tax on that day's stock sales. The taxation, which the state imposed upon the New York Stock Exchange and the Curb Exchange, was bringing them literally millions of dollars in tax revenue. Now the federal government wanted to impose taxes as well. It seems as though laws are never good enough. The government always takes the position that it is far better to raise taxes as the supposed incentive against something, rather than to actually outlaw whatever it is that they are trying to prevent. In the end, obviously government will always be the ultimate winner when it takes that sort of approach.

Brokerage Houses Are Optimistic on the Recovery of Stocks

THE NEW YORK TIMES, FRIDAY, OCTOBER 25, 1929.

Weird Roar Surges From Exchange Floor During Trading

BROKERS IN UPROAR AS MARKET BOILS

FURIOUS PACE BEFORE GONG

CROWDS SURGE IN STREET

SCENE IN WALL STREET AS PRICES CRASHED ON EXCHANGE.

SENATORS STIRRED BY MARKET BREAK

King Presses His Proposal for Investigation of Federal Reserve System.

GLASS SEES VIEWS BACKED

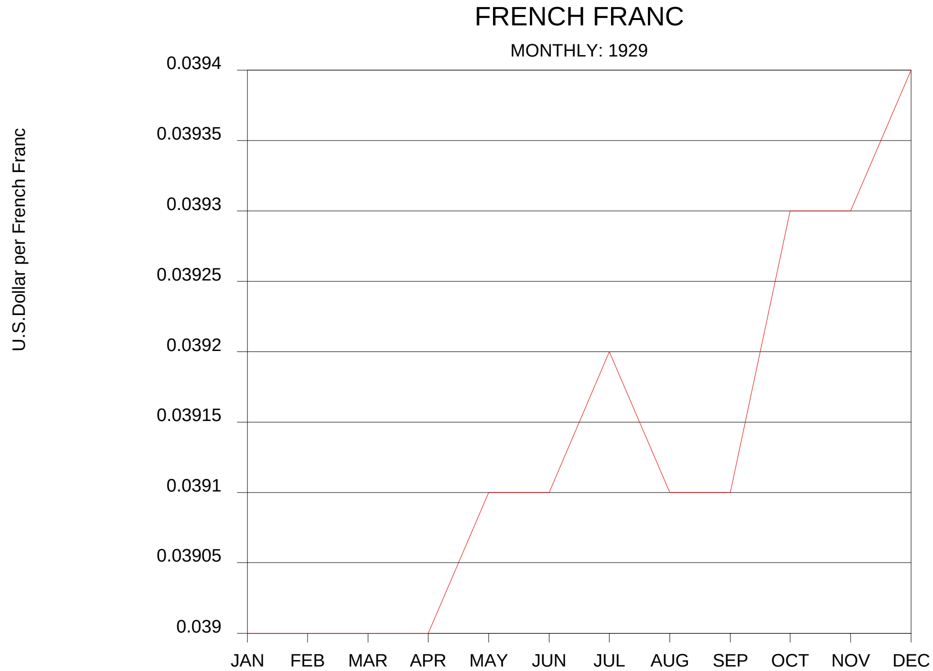
BREAKS OF THE PAST RECALLED IN STREET

On another page in the New York Times on October 25, the headline read: "Brokerage Houses Are Optimistic On The Recovery Of Stocks." Another article, entitled "Investment Trusts Buy Stocks Heavily, Pour In Their Reserves As Market Drops," went on to say:

"Investment trust purchases yesterday were reported to have been the heaviest of any day since the inception of the investment trust movement in this country. Many trusts which had placed scale buying orders extending from 10 to 50 points below yesterday's morning opening prices were said to have purchased hundreds of thousands of shares. These scale orders had been placed under the market several weeks ago in a period when many of the trusts were liquidating a part of their holdings.

"When the decline was most abrupt from 1130 to 1230, the scale orders of the investment trusts and other interests acted as a cushion for the crashing securities markets. During this interval, scale buying orders were caught by the hundreds and several trusts declared after the close of the market that they had purchased all the stocks which they cared to add to their portfolios for the time.

"The decline was so severe, however, that a few trusts complained that their scale orders had not reached down far enough and that many of their purchases were made at the higher levels prevailing before the break assumed its greatest proportions. One trust was reported to have been unusually successful in its operations making most of its purchases by keeping in constant telephone communication with its brokers on the floor of the exchange, buying in 5,000 and 10,000 share blocks at the lowest level of the day. When the stock market rallied, the trust had a paper profit on its operations

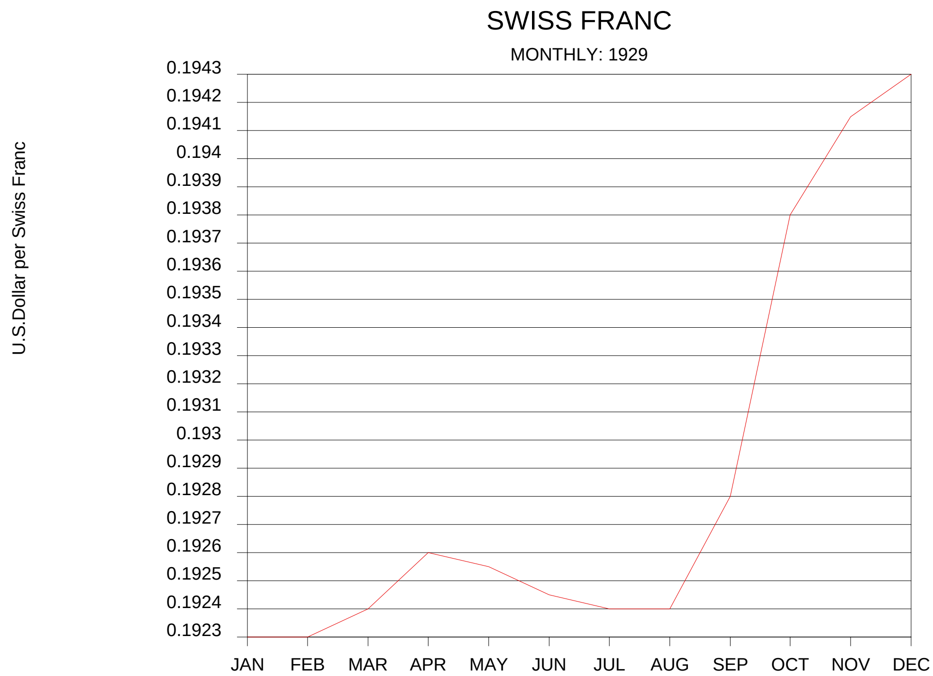



for the day of several hundred thousand dollars.

"The cash reserves of the entire group of large investment trusts before yesterday's operations was estimated at approximately $750,000,000. More than $100,000,000 of this total was reported to have been used by the trusts in the purchase of stocks yesterday. One trust, which had $30,000,000 in cash on Wednesday evening, reported that it had used only one-fifth of its total yesterday in purchasing stocks."

Obviously, the investment trusts had received sizable hoards of cash as the market had come into its high during September. Since the market began to decline, many trusts did not simply jump into the market investing their capital upon receipt. Had they done so, the break could have been seriously worse than what took place. Institutional cash was actually at record highs just prior to the October 1929 collapse.

This very same fundamental was implicated as the reason for the stock market rally in 1982, and claims were made that the institutional cash was at all-time highs. Again fundamentally we find that the institutional cash levels at the top of the market in 1929 were also at record highs and this simple factor of watching institutional cash reserves as a leading indicator for market performance does not necessarily hold a constant relationship to the market. To the contrary, institutional cash would logically be at all-time highs when a market is soaring to this extent. It is reflected by the small investor reading the bullish headlines and sending in his cash as quickly as possible. In fact, the entire investment trust phenomena was exploding between 1925 and 1929 and therefore from one month to the next, in effect, it always had established a new record high in cash during the bull phase of this period. Therefore, if one were to draw any assumptions from watching institutional cash levels, perhaps it should be marked rises and marked steady declines. It is doubtful that this indicator will afford




any loading indication but in the future perhaps it might be used as a confirmation of a change in trend following market performance.

The banking statement provided that week by the House of Morgan was at first misinterpreted by the traders in the confusion. It was actually not until later in the week that Mr. Lamont's statement became clearly understood. The New York Times explained this confusion as follows on the 25th:

"Through a misunderstanding, reports of Mr. Lamont's statement appearing on the news tickers made it seem that he had said that he expected the Federal Reserve authorities to take some action today upon the stock market situation. In a later interview, he disclaimed all such intentions pointing out that he would hardly be in a position, even if he should care to do so, to forecast the actions of the Federal Reserve Board."

The crash had shaken the securities and commodity markets worldwide. In London, the exchanges stayed open late into the night following New York time so that investors would not be left in a serious position with no way to act. Between the confusion among public statements and with the tickers falling 8.5 hours behind, it is not hard to imagine the intensity of the panic during that fourth week in October.

As Saturday arrived, volume declined to 2,098,000 shares, nearly half that of the previous Saturday session and one-sixth of the huge volume on that Thursday. The market held the previous day's low and trading was steady between 303.60 and 295.98. The total volume for the week was 37 million shares, more than half the entire volume of the previous month. On the close of Saturday the industrials were off 88 points from the high of September 3, which was about 23%. The railroads were off 24 points, nearly 12.5%, with the utilities down nearly 28%, showing clearly that they had been the hardest hit. The bonds, however, had fallen

The New York Times.

THE WEATHER

NEW YORK, FRIDAY, OCTOBER 25, 1929.

TWO CENTS

# WORST STOCK CRASH STEMMED BY BANKS; 12,894,650-SHARE DAY SWAMPS MARKET; LEADERS CONFER, FIND CONDITIONS SOUND

HUMBERT ESCAPES ANTI-FASCISTS SHOT AT BRUSSELS TOMB

Student Slips as He Tries to Assassinate the Italian Crown Prince.

HEIR CONTINUES PROGRAM

He Places Wreath on Unknown Soldier's Grave and Reviews Guard of Honor.

TESTIFIES HE HANDED $10,000 TO WARDER

SENT BY FERRARI, HE SAYS

Memorandum on Withdrawal of Cash From City Trust Is Held From Jury Temporarily.

FINANCIERS EASE TENSION

Five Wall Street Bankers Hold Two Meetings at Morgan Office.

CALL BREAK 'TECHNICAL'

Lamont Lays It to 'Air Holes' —Says Low Prices Do Not Depict Situation Fairly.

FINDS MARGINS BEING MET

Wall Street Optimistic After Stormy Day; Clerical Work May Force Holiday Tomorrow

LOSSES RECOVERED IN PART

Upward Trend Start With 200,000-Share Order for Steel.

TICKERS LAG FOUR HOURS

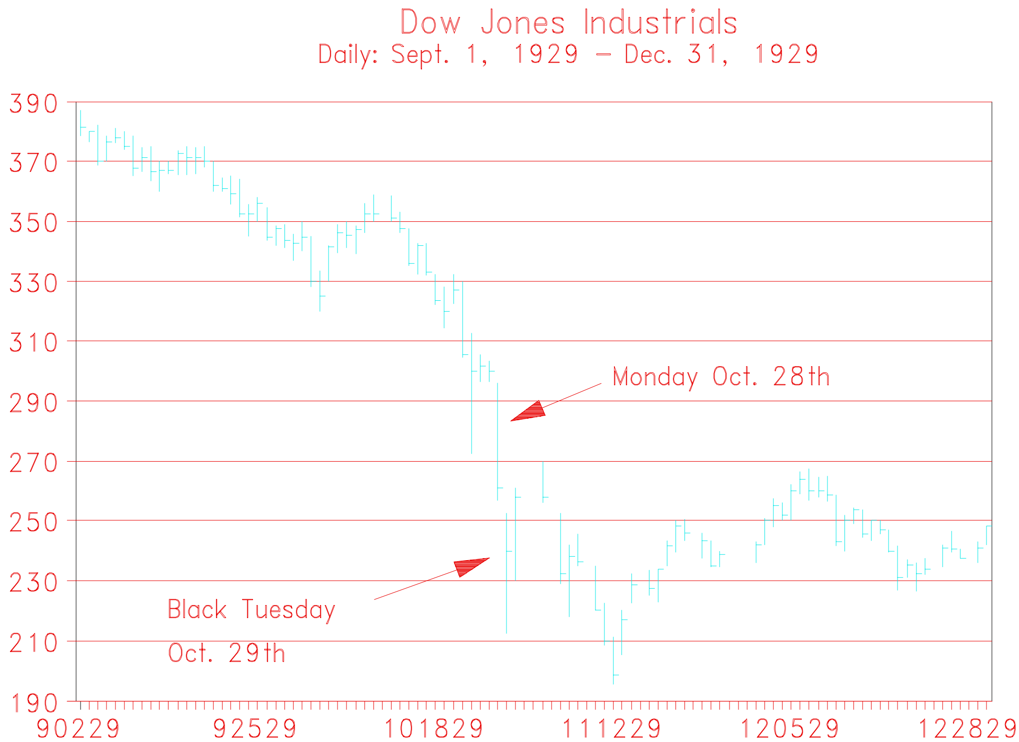
Thousands of Accounts Wiped Out, With Traders in Dark as to Events on Exchange

BIG DROP IN WHEAT; PIT IN A TURMOIL

TREASURY OFFICIALS BLAME SPECULATION

to 92.10 during September and closed at 92.18, which was the lowest closing since 1928 high. October had also brought the bonds down, falling to 91.76 during the first week of October 4. By Friday, October 11, the bonds rallied sharply as the stocks declined, closing the second week at 92.39. But during this third week in October many were dumping stocks, running back into the bonds and trading according to their old familiar theory. The relationship, which was stocks down, bonds up, began to come alive again but would soon prove to be false as the depression unfolded. By the close of this week the bonds rallied steadily, posting gains each day closing at 93.71.

Sunday the 27th brought welcome relief. Traders hoped that things would settle down after the news of the bank meetings had been misreported and then denied. But the Federal Reserve had not seen enough blood just yet. After a late special meeting which lasted 2.75 hours, a spokesman for the Federal Reserve emerged from the closed door session uttering their famous statement, "No announcement." The discount rate would not be lowered. Despite the denials of Lamont, traders began to think that the Fed might tighten further in their battle against the market. Perhaps the greatest of all fears was that the selling




might now continue when Monday opened for trading.

When Monday, October 28 opened, the worst fears expressed over the weekend came to a real fruition. Monday opened at 295.18, which was slightly below the lows of both Friday and Saturday of the previous week. But worst of all, 295.18 quickly became the high of the day in a very obvious manner. The market began to plummet and now even the investment trusts began to worry. No scale buying was seen of any real size. The market had encountered Mr. Lamont's famous "air-holes" collapsing in a terrible manner. The industrials fell to 256.75 and this time there was no sharp rally for the close as the market went out with a screech so loud it was as if it had been dealt a swift and sharp fatal blow. The roar was reported to be so loud that it was audible on the streets outside the building.

The railroads fell sharply and make a new low for the month, falling to 155.07, off 20 points from the high thus far for this month alone. The utilities collapsed, falling to 86.96, down 18 points from the previous day. As a whole, the broad market dropped 155 in a single day! The bonds rallied again but, curiously enough, they closed at 93.69, slightly lower than Saturday. This perhaps reflected above all that people were getting seriously hurt and not much capital was seen on the bid side for bonds that day.

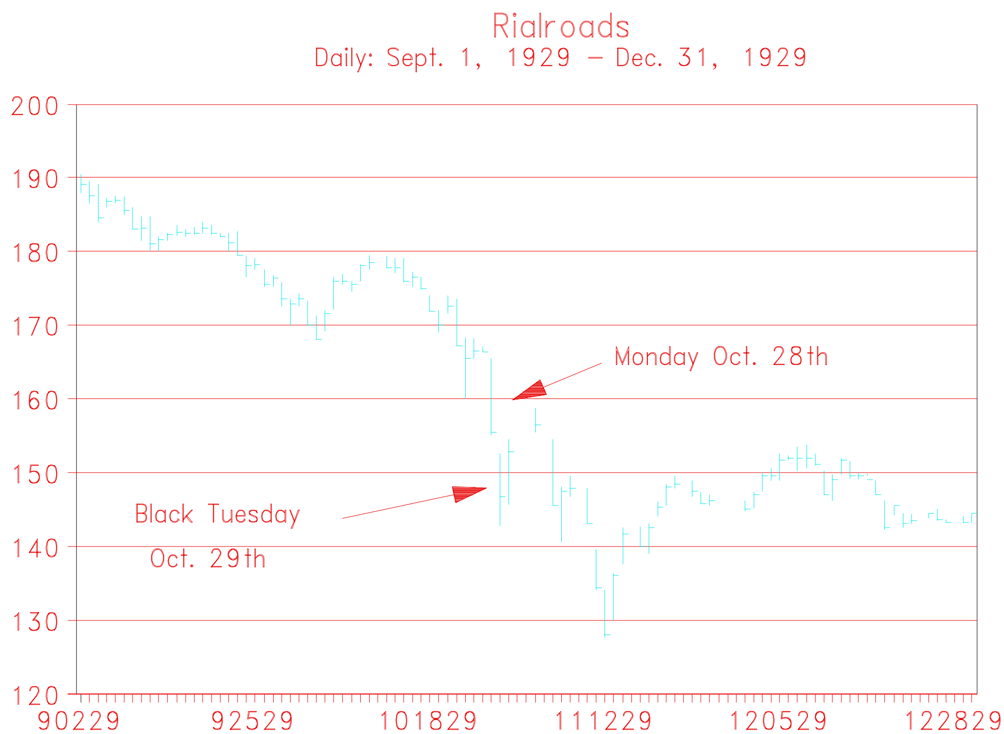
Then came what would be known as Black Tuesday, a day that would carve its memory into the minds of men who would not be born for decades to come. Monday's volume was released: 9,213,000 shares. As if Monday's devastation was not enough, Tuesday's speculation that the Fed was going to raise the discount rate loomed above the heads of the traders. People asked why, and there was little explanation that could offer consolation or reason for that matter. Everything was an assumption based on unwarranted rumor, but the Fed and its board were viewed as the assassins who were terrorizing the financial world. The market opened 8 points below the previous day's close and 4 points under its lowest point of depravation. Again it quickly become noticeable that it was again the high of the day. Selling came in from everywhere as the industrials were forced to an appalling and depressing low of 212.33. Volume for the day was 16,410,000 shares, more than four times the volume in the good old days when the market leaped ahead, rearing its horns through the stops placed by the short players.

This devastating decline was unmistakably no poor man's crash. By Monday, the previous day, G.M. had lost nearly $2 billion off the total value of its 43.5 million outstanding shares. General Electric had dropped 120 points from its 1929 high. Westinghouse Electric crashed 194 points, American and Foreign power fell nearly 112 points and even AT&T collapsed by 130 points. Everything had buckled under to the waves of mass hysteria.

But Black Tuesday had not left even some of those declines alone. On Tuesday, G.M. fell below 50 after being above 200 at one point, which was now off by 75%. Even the almighty Chrysler, which had been the leading automobile issue throughout the bull market, was now under 40, off more than 100 points from just a few weeks before. The railroads had tried to resist the depravation before this week, but even here with car loadings doing very well, the rails broke severely. The Dow Jones Rail Index, which had reached 190.50 in September, now groveled at the 142 level. Common sense, logic, reason, earnings, dividends all seemed to be fundamental excuses which could not muster a supporting consensus.

Perhaps the greatest indication of all, which clearly proved that this was no small panic and that it was not restricted to the small investor, was the collapse in the banking stocks. Traditionally, most banking issues were purchased by the wealthy and many traded over the counter as unlisted securities. Here again we can see that the Federal Reserve concern for the amount of money in the brokers' loans was perhaps not justified for the nation as a whole. The margin for bank stocks was usually none and those that were marginable were on a 50 to 80 percent basis. There was no overleveraged position in this market. Yet despite this fact, the damage which had been done seriously affected the rich as well as the middle class. The banking issues, of which many were selling at $400 or more a share, crashed. First National fell on the 28th by $500 in a single day. Bank of Manhattan fell $150 that day as well. In fact, sharp losses were expressed in the quotations for Bank of America, Chase National and even the mighty National City. Other stocks, traditionally held by the rich, were the insurance companies, trust companies and utilities. Here it became clear that the rich industrialists, who normally paid 100% cash for their bank shares, saw their portfolios cut more than in half between September 3 and October 29.

In the midst of the hysteria when people watched their fortunes disappear faster than they had been amassed, a knight in shining armour came to the rescue. He was John D. Rockefeller, American oil tycoon. Rockefeller had never been a man of much public exposure, preferring to refrain from public statements. But he was a man highly respected among businessmen as well as Wall Street. With the calm and steady voice of confidence he came forward and publicly announced: "Believing that fundamental conditions of the country are sound, my son and I have for some days been purchasing sound common stocks." At last, someone of substance offered to put his money where his mouth was, so to speak. The news hit




the floor in the later part of the session just prior to the close. The market firmed and began to rally sharply for the close, settling at 230.07, up nearly 18 points from that day's low of 212.33. On this day, selling of even investment trusts had come in but many could not be sold for there was no bid of any price. But as the news eventually began to circulate, what the bankers and the investment trusts had tried and failed at, only John D. Rockefeller seems to have been able to pull off. Here was a man of few words, devout patriotism and acknowledged business accomplishment. Despite the numerous words from Hoover to the Governor of the State of New York, Franklin D. Roosevelt, all claiming that the economy was sound, it took an acclaimed tycoon not known for speculation but for his business judgement, to provide a level of confidence once again.

The next day, the market opened higher, fell slightly to 230.98, still almost a point above the close on Tuesday, and then rallied straight up to 260.93, closing at 258.47. Shorts were covering but more apparent was real buying from bargain hunters. But most important, volume reached 10,727,000 shares, the highest volume ever recorded on a day that rallied instead of declined. The buoyant rally continued into Thursday, the 31st of October, as trading slacked off to 7,149,000 shares. The bonds had fallen back to 93.13 on Tuesday but rallied on Wednesday to 93.52, coming close to matching the previous week's high of 93.83. But as the stock market moved higher on Thursday, the bonds fell by a full point, dropping for the close back to 92.11. Clearly, cash for stocks came flooding back out of the bond market as traders continued to view the old relationship of stocks up, bonds down. The total volume for the week was nearly 44 million shares. The exchange, exhausted and drained, declared a three-day holiday, ending the week on a definite notes of optimism.

The week of October 28, 1929, had been the largest volume week in the history of the exchange. The backlog of work was incredible as October slipped into the past. November began on Friday of that week but the market was closed and remained closed for a three-day holiday and did not reopen until Monday, November 4.

The week of October 28 had caught the attention of virtually everyone in world, not merely the nation. Stories continued to dominate the press during early November of 1929. The Dow Jones Industrial Index had fallen from the 386 high in September to 212 on Tuesday, October 29. But the decline in many individual stocks was much worse than the indexes suggested.

Montgomery Ward fell from its high of $156 to $83 while Electric Bond and Share fell from $189 to $50. One story, which history has recorded but prosperity has caused us to forget, concerns a hero - at least in the public's view - from the House of Morgan and how he helped stem the decline during that dreadful week.

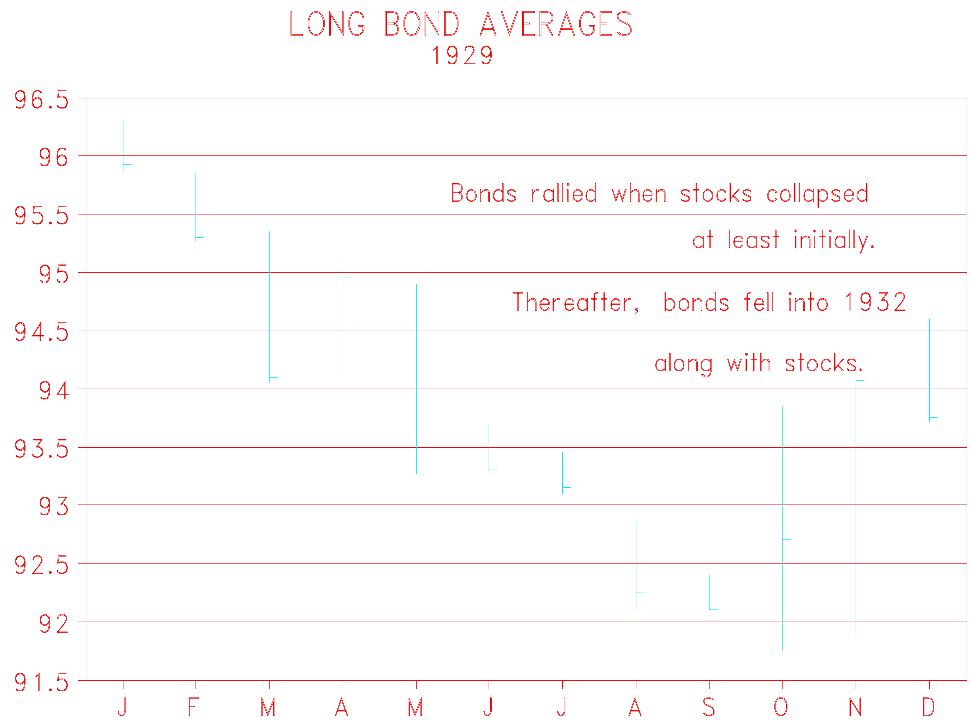
The hero was Richard Whitney, head of Richard Whitney & Company. He was well-known as the brother of George Whitney, who was a Morgan Partner. At 1:30 PM on Tuesday, Broker Whitney stepped into Post Number 2 and in a loud and confident voice announced a bid at $205 for U.S. Steel. This was 15 points above the market at that time and soon the tickers began to flash "Steel, 205 bid." Whitney was bidding for only 25,000 shares which amounted to a mere $5,000,000. But the importance of the bid lay solely in the Whitney's implied relationship with the House of Morgan.

Despite the seemingly buoyant recovery for Thursday afternoon on the 31 st, many a speculator was cut down to size that week. The speakeasies were booming as rumor after rumor depicting suicides drifted through the smoky back alley rooms. Perhaps the odd saying, "misery loves company," was born in those dark, smoke- filled rooms that very day. For misery certainly was not alone. Proud boosts of how they had survived could be heard between the gulps of imported bootleg of the finest quality. But between the lies and the exaggeration relating how they knew all along that this would be the outcome rumor and speculation spun tales of the famous who were less fortunate. The rumors and the gossip which told a dismal tale of suicides began to turn into blatant reality.

When the week was over, estimates began to pour out indicating that the number of margined positions which had been closed out ranged from 25% to 75%. The swing within the market that Thursday the 31st was awesome. The decline from Monday had cut the total value of the New York Stock Exchange issues by nearly $11.3 billion. By the close of Thursday, all but $3 billion had been recovered.

The "Banking Pool," as it was called by the end of that week, seemingly stood by ready to stem the tide should it shift toward selling once again. But the following week brought with it National City's withdrawal of its offer to buy out the Corn Exchange. This untimely event, coupled with remarks from Senator Carter Glass, who chose to blame anyone and everyone for the collapse in the market, undermined the confidence in the Banking Pool.

In the Philadelphia Record, Senator Glass, author of the Federal Reserve Act, attacked Charles Edwin Mitchell for causing the crash by making optimistic statements. Mitchell was the head of National City Bank and therefore an important member of the Banking Pool. Senator Glass's verbal assault was quoted as follows: "He, more than any fifty men, is responsible for this stock crash." The hostility of Senator Glass toward Mitchell was a long

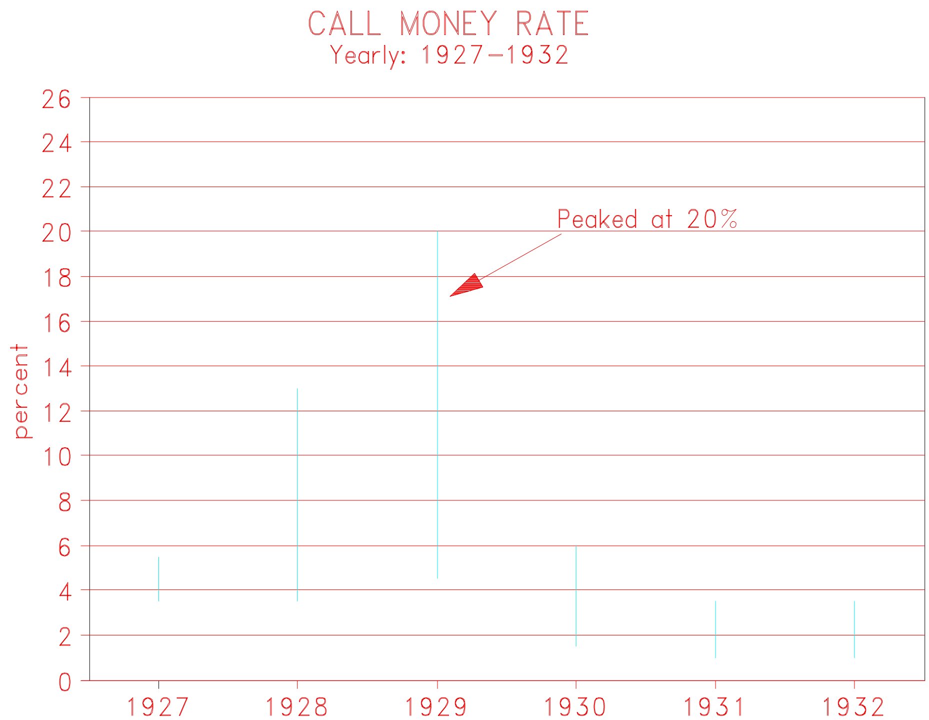



running story in itself. But nonetheless, rumor circulated to the point that Mr. Mitchell was forced to come out publicly and deny that he was going to resign.

Senator Glass had a sharp tongue and perhaps far too much pride. While the majority pointed the finger of blame at the Fed, Glass lashed out in defense of his creation. His personal pride stood before the best interests of the nation and instead of considering that his creation could possibly be wrong or at fault, he chose to condemn everyone from the President to Mitchell for making optimistic statements.

As Monday, November 4 opened, the first print was now off nearly 10 points from the close of October 31. The high of the day once again quickly formed at 269.75. The market fell as people began to question the validity of the Banking Pool. The Dow Jones industrials dropped to 255.43 and closed at 57.68 with volume running at 6,203,000 shares. The market was closed again on Tuesday, November 5 and reopened on Wednesday under the low of Monday. The high of the day formed at 252.20, more than 3 points below Monday's low. Selling continued once again as the industrials dropped to 228.35 closing at 232.13. Volume was now 5,915,000 shares. So far, the industrials, railroads and utilities still held the low of the previous week's panic.

On Thursday, November 7, the selling persisted. The market opened up slightly but rumors of Mitchell caused much nervousness. The high of the day formed quickly once again at 242.10, up nearly 10 points from the previous day's close. But then the selling began to pour in from all corners of the exchange floor. The market fell abruptly falling to 217.84 holding the previous week's low by merely 5 points. But then a rally sparked by short covering unfolded and the market rallied back and closed at 238.19 with volume reaching 7,184,000 shares. On Friday, November 8, The market calmed down with volume declining to 3,215,000 shares, which was the lightest in nearly three weeks. The indus-




trials traded between 245.28 and 234.63, closing steady at 236.53.

The market was closed down on Saturday once again hoping that time off might help allay fears of panic. But as the speculators had two days to think things over, their fears were not yet settled. As the week of November 11 began trading, the dread of panic once again gripped the market. After opening at 235, the market briefly reached 235.13 on the open and then fell like a rock. The industrials dropped to 219.34 which still managed to hold above the major low of November 7. But this time there was no rally. The industrials closed at 220.39, the lowest closing yet achieved. Volume was relatively light with merely 3.7 million shares changing hands.

As everyone had the night of Monday, November 11 to think things over, talk again began to turn toward fear. The Utilities, which had long been viewed as the rich men's investments, had indeed broken the previous low and closed at 73.91. Even the bonds had declined to a small extent. This did not speak well for what "strong" hands may have been up to. Some asked if the decline would ever come to an end.

As Tuesday, November 12 arrived, the industrials barely managed to rally up to the 222.56 level before falling once again. Volume doubled as panic filled the minds and hearts of those that remained in the market. This time the industrials fell without mercy straight down to 208.09, closing at 209.74. The rails fell to 133.68, which was also a new record low for this devastating crash. Even the bonds fell back under the 93 level for the first time in November.

As Wednesday the 13th opened, the selling continued and the industrials reached 211.92 but fell breaking the magic 200 mark testing 195.35. By the close, the industrials couldn't muster enough support to rally and closed below 200 at 198.69. Volume was again heavy, amounting to nearly 7.8 million shares that day. The bonds fell nearly half a point closing at 92.44 and the rails finished at 128.07 with the utilities down at

64.72. Would no one be able to stop this market from falling further?

At last, Washington's long silence was broken. President Hoover promised a tax reduction and an industrial conference. Other heroes began to step up. Julius Rosenwald, board chairman of Sears, offered to cover the margin accounts of all employees. Standard oil of New York announced that it would lend $43 a share against its own stock to employees who were overmargined. Other companies began to join suit such as Standard oil of New Jersey, Humble oil, U.S. Steel, Gulf oil and others.

Although the market had forgotten Rockefeller's pronouncement that he and his son were buying stocks of sound value, this time it would not forget. Rockefeller placed and order to buy 1 million shares at $50 of his own Standard oil of New Jersey. This above all would make Rockefeller one of the true historical heros of the moment.

The lists of winners and loser of the era began to fill the press. The plans to establish a Papal Bank were abandoned as the Vatican took heavy losses during this period. The State of New York was among the winners. It had raked in nearly $5 million in taxes of 2 cents per share for the month of October alone.

Many losers obviously didn't come forward publicly. But one such loser did. She was a girl of 19 named Margaret Shotwell. She told the press that she had lost more than $1 million and even named the stocks she had owned. The list was Montgomery Ward, Paramount, Cities Service and General Motors, all blue-chip companies no doubt. When she was only 12 years of age, her father had brought home a friend to listen to her play the piano. That friend was John Neal who upon his death left her $l million in stock of Reynolds Tobacco, which she diversified into other companies on margin.

Others did not take their losses so easily and the suicide lists began to grow in prominence as well as in number. That drop in November brought with it the suicide of the president of New York's County Trust Co., James J. Riordan. The president of Rochester Gas & Electric Co., Robert M. Searle, also committed suicide and was rumored to have lost nearly $1.5 million during October's panic. In New York City, 44 suicides took place between October 13 and November 15.

The first brokerage house to go under was Mandeville, Brooks & Chaffee of Providence, Rhode Island with liabilities of some $4 million. The panic had clearly cut deeply into the heart and soul of many who participated in the market game.

But it would be wrong to paint a picture entirely of doom and gloom. Many foreign visitors remarked on the somewhat cheerful atmosphere that curiously surrounded parts of the marketplace. Jokes of all sorts were heard for each new devastation. Some were clean while others were just plain sick. Actor Eddie Cantor told the press that when he heard that Rosenwald was offering to cover the margins of his employees at Sears, he immediately sent a telegram to apply for a position as office boy. Through it all there was some sipirit left and obviously not all were wiped out by this first crack in the market.

On the streets of New York, one could buy for $3 the news letter of Roger W. Babson who cashed in on his market call for a break. Although Babson had called for a break of only 60 to 80 points and the market had fallen more than 186 points, he was, nonetheless among the very few that at least called the direction correctly. That was not the case for most analysts. One such analyst, Charles Amos Dice, was a well-known bull and many followed his lead through the bull market. In October he published "New Levels In the Stock Market" in which he claimed that the market would remain at near the current levels and that the Dow would hold the 300 level on the industrials. Mr. Dice is not remembered by many in this day and age.

Between Hoover and Rockefeller, someone did step in to save the market that week. Although it was not a Friday, November 13, a Wednesday, would stand as the low for the Panic of 1929. The Dow Industrials, after closing that Wednesday below 200, opened above it on Thursday the 14th. The low of the day dug itself in at 205.61 and by the end of the day the market closed at 217.28 after reaching a high of 219.49, up nearly 10% in a single day. Friday brought more of the same as the market gapped up even higher. The low of the day was 222.50 and the market pushed upward testing the 232.77 level and falling back to 228.73 for the close. After reaching 7.8 million on the Wednesday panic, volume remained respectable but did not exceed levels of recent down days. Thursday reached 5.5 million and Friday's volume was merely 4 million shares. Curiously enough, the bonds continued lower on Thursday when the stocks began to recover. They closed at 91.93 but managed to rally back for a close on Friday at 92.03.

The market remained closed that Saturday as the exchange attempted to restrict trading to a five-day week. In part, the halt in the decline was helped by the Fed cutting the discount rate from October's cut to 5% back down to 4.5%. This level would be maintained through the balance of 1929 and no further cuts would come from the Fed until February of 1930.

On November 18, 1929, Time Magazine reported on its opinion as to the cause of the crash. It appeared as follows:

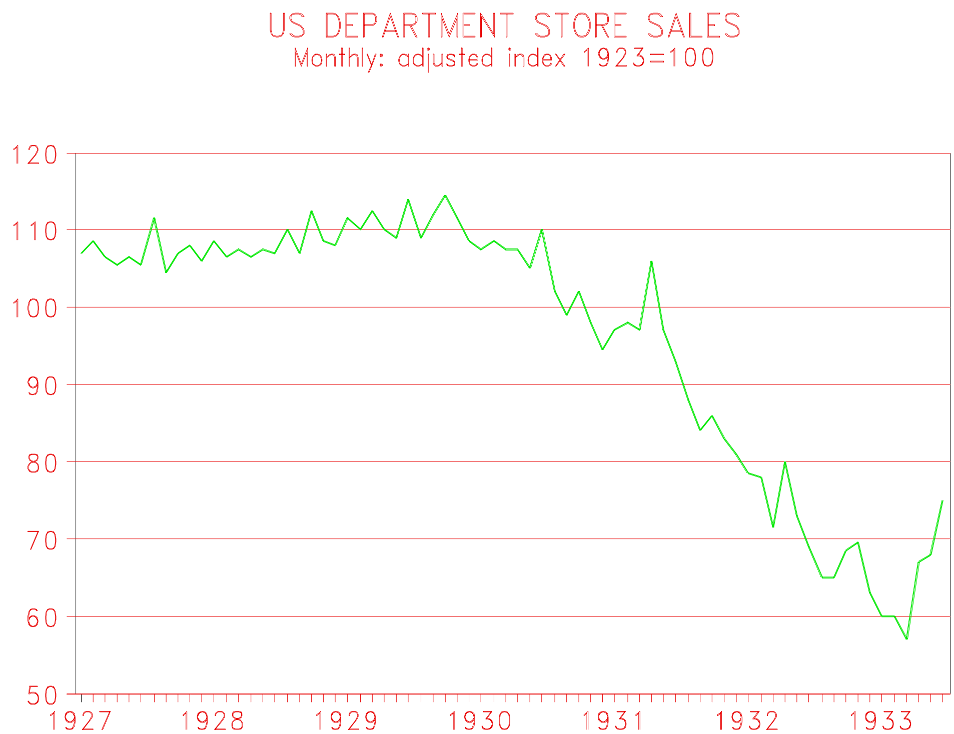
"Why the Crash come on October 23, 1929, is as mysterious (and as unimportant) as why the World War chanced to begin on August 4, 1914. If some trace the War no further than to an archducal assassination, then others might trace the Crash to a variety of such moments as that when Goldman Sachs terminated the syndicate on their Blue Ridge investment trust. Vital point is the undermining of popular confidence that ended in the Crash. Causes of undermining were:

1) Warnings from the Federal Reserve Board and other prophets of disaster warnings that scoffed at when given, nevertheless filled the Market with a conviction of sin.

2) A period of almost two months (since Babson Break early in September) in which it had taken strych-nine-injections to push quotations ahead. The September slump (currently almost ignored in favor of the peculiar theory that the Market crashed without warning) was of tremendous importance in its indication that a Market which could survive only by constant rises had reached the limits of its climb.

3) Most important of all indications of a slowing tempo in U.S.industry. The motor stocks, for example, had long since fallen from their January highs..."

While Senator Glass tried to blame the crash upon those who spoke "too optimistically" thereby inducing others to throw their



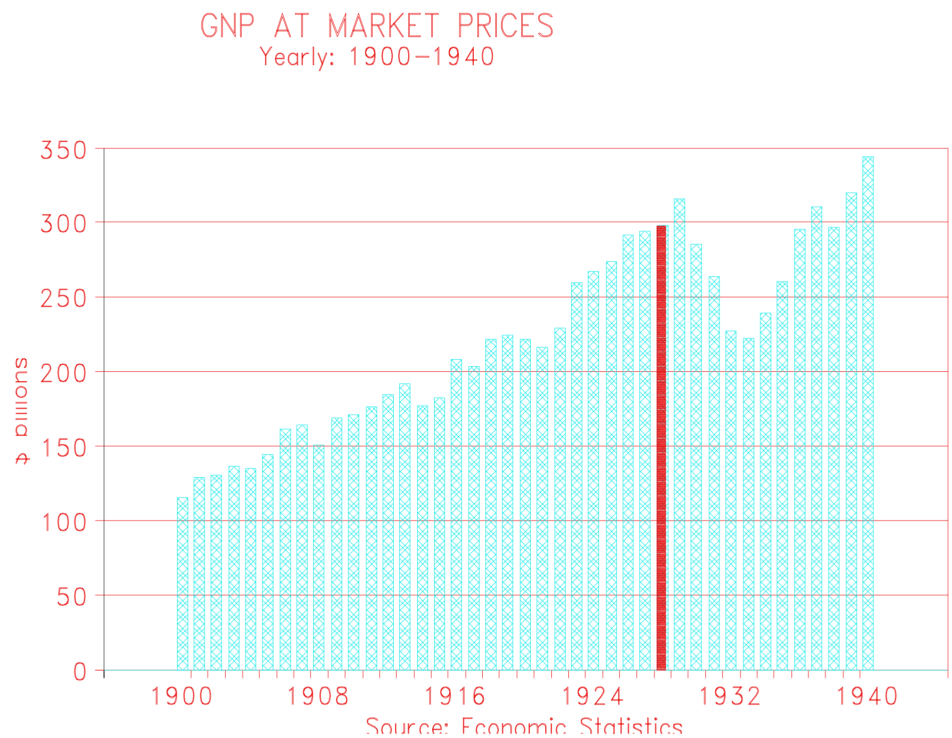

money into the market, Time has taken the opposite view. Time pointed to all the scorn and the jaw-boning of the Fed that eventually undermined the confidence within the market and the nation. Time was certainly correct in pointing out that by September there was a small indication that industry was perhaps entering a slump. Although steel production was declining, it was certainly not a major leading indicator. However, the motor stocks indeed did peak in January as Time reported. This was perhaps a better technical warning since the motor stocks were the leaders all the way up. In fact, the bull market had been built upon the innovation of the automobile industry. From our sense of the importance of technical patterns, the true key for anything tangible is the fact that the strong leaders had peaked in January. The broader market, in fact, continued higher into September. But these were the highly speculative stocks as well as the stocks that had lagged for years.

Time Magazine went on in its article of November 18 to discuss the three main thoughts at the time from the economic viewpoint. It reported at follows:

"ECONOMICS. Apart from the 'causes' of the break, many an economic point was made apropos the break. Three widely discussed points were:

1) That corporations which had loaned money 'on call' to speculators had contributed more than any other group to an unsound financial situation because many a corporation promptly called in its loan at the first sign of trouble. Five directors of one corporation threatened to resign last week if their company should call its loan. These directors took the honorable position that having once loaned its money to the stock market, the corporation should stand by the market so long as its loan was adequately protected by collateral.

2) That speculation had been encouraged by the over-conservative financial reports of corporations. There have always been dishonest concerns which rig their books to show $1 per share profit when actually there




was no profit. But suppose an ultra-conservative concern, by scaling its assets to minimum and carrying the liabilities at maximum, shows a $1 per share profit when someone else thinks they might presumably have shown $2 per share profit; then the incentive to imagination and hence speculation is great and obvious.

3) That wide-spread distributions of stock to employees have made hundreds of thousands unduly 'stock-conscious.'"

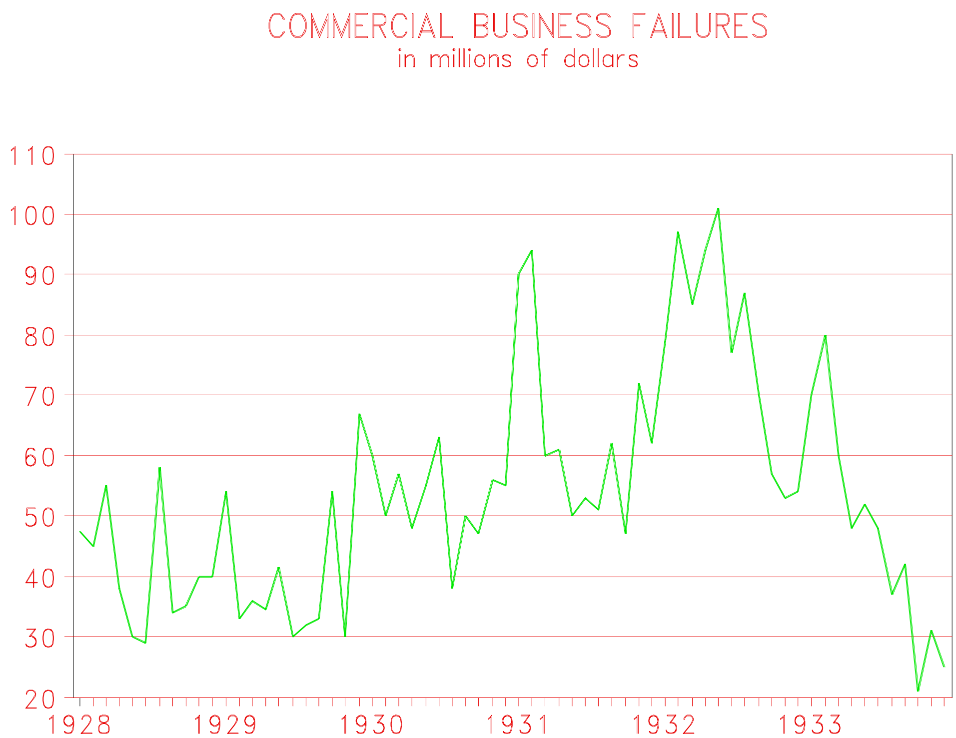
Obviously, in a serious situation like the Panic of 1929, people go around blaming everyone else but themselves. Granted the corporations dumped tons of money into the call money market where rates rose as high as 20%. But did anyone think twice about running into their money-market funds in 1981 when rates there far outpaced the time deposits at savings and loans? Well, time deposit rates were 2% at that time. Why wouldn't anyone in his right mind not move funds to the call money market when he could earn five to ten times what he could at the bank time rates? This is hardly an excuse for the crash.

Nor can one pin the blame upon corporations over or underestimating profits. The big companies were pouring out dividends like there was no tomorrow. Granted, there were undoubtedly some fraudulent practices, but this was certainly not the case for the majority and consequently would not have sparked such a rally to begin with.

Finally, trying to pin the blame on companies that provided stock plans for their employees is absurd. Virtually every major company has had a stock plan in place for the past 50 years and no major bull-fever has broken out.

The causes of this devastating collapse could not be assessed just at this point in time. By year end, most would actually begin to believe that the worst was over and that prosperity would remain intact.

As the final week in November draw the month to a close, the market began to firm.




The week of November 18-22 saw the industrials trading between 222.93 for the low, rallying back to 250.75 by Friday and closing the week at 245.74, up nearly 18% from the low established on November 13. Volume was far from heavy. Thursday the 21st was the peak on volume, reaching only 3.1 million shares. The entire week brought light volume totalling only 14.5 million. During the previous week when the low had been established, volume reached nearly 22 million shares with the market open only four days instead of five. Clearly, not much fresh buying was honestly entering the market.

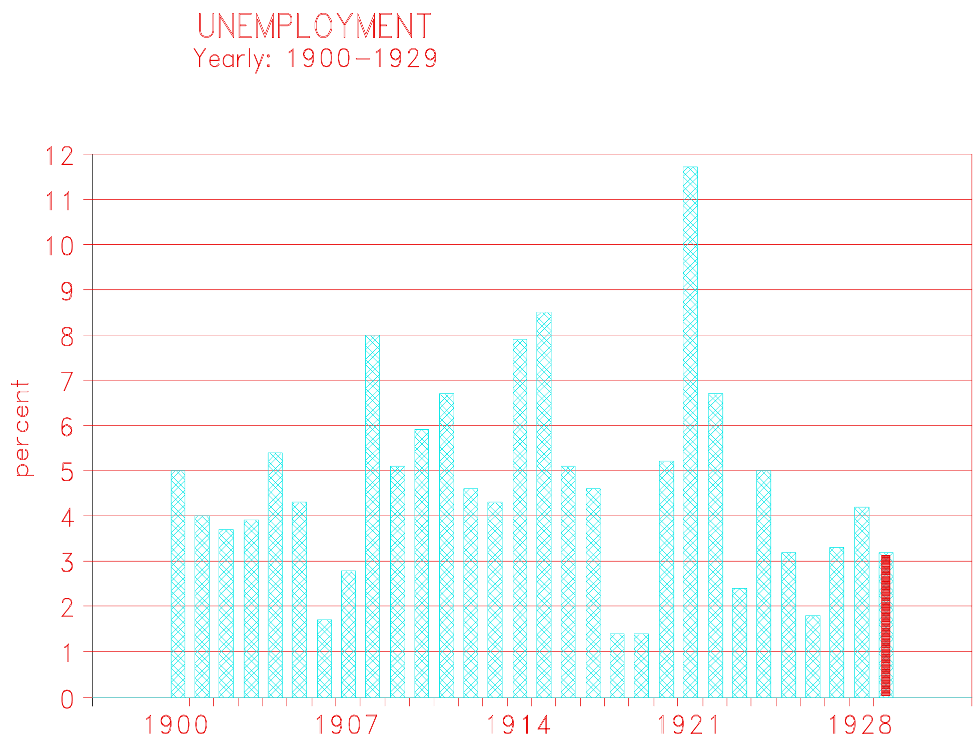
The rails managed to firm as well, rallying back to 149.48 by the end of the week. The bonds also rallied, closing back above 93 on Friday the 22nd. Although the market seemed to firm, caution was still most assuredly in the wind while dry cool jokes circulated around the floor.

The final week in November was a short trading session. The market began to dip back, falling from the previous week's high of 250.75 to 234.51 on Tuesday the 26th. The industrials managed to hold but again volume increased to 3.6 million shares that day. Clearly the signs were still indicating nervousness. The market firmed and rallied back on Wednesday, reaching 240.66 and closing November at 238.95. But volume was down to 2.4 million shares. There was undoubtedly a distinct trend that up days brought low volume while down days carried on increase of nearly double the volume. The bonds rallied and closed that week at 94.05 on news of Hoover's impending economic conference.

"I will appreciate it if you would make it convenient to attend a small conference in my office on Thursday morning at 10 o'clock to discuss matters connected with my statement of last Saturday."

Herbert Hoover

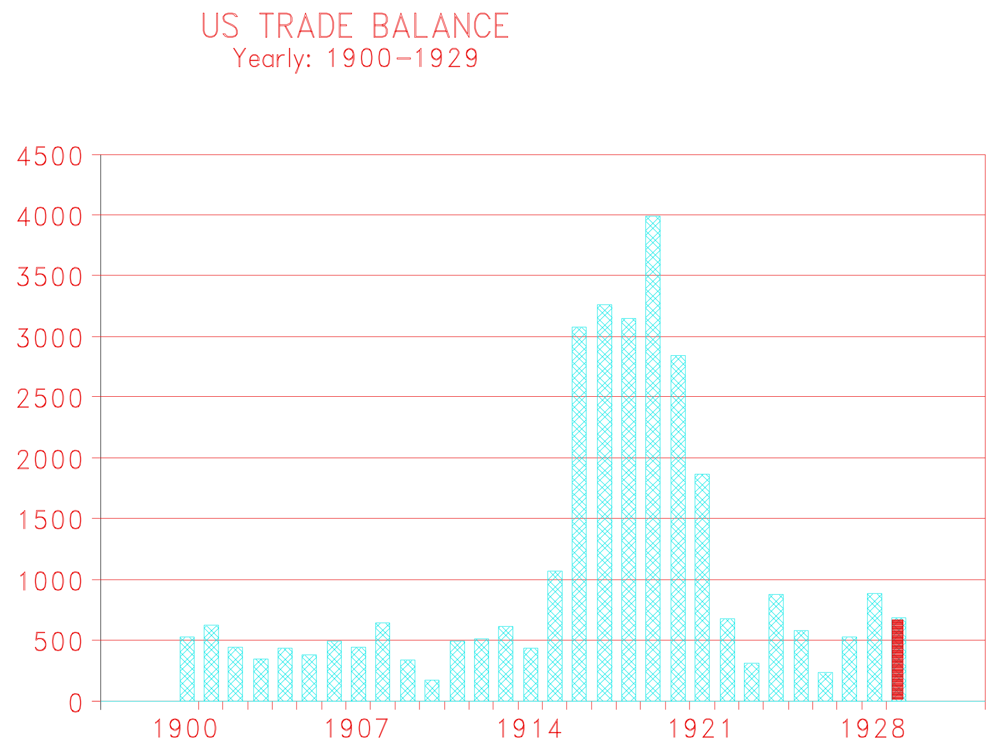
The markets were closed. The whole world waited to hear a few words of optimism and some decisive plan to stem the panic and save the nation. History chose to




place a lot of the blame upon Herbert Hoover and in the depths of depression shanty towns were eventually named "Hooverville" across the land. But the facts are clear that Herbert Hoover attempted actions and sought pledges from industry which would, under normal conditions, fundamentally provide a logical, supportive outcome. But fundamentals never predict the future and economic solutions seldom bring what they are supposed to deliver. Speculation is perhaps a mere shadow of expectation thrown forward upon the road which extends into the future. But then again, without confidence, there is no speculation.

The pledges that Herbert Hoover extracted from industry were real and fundamentally sound. Leading employers made the commitment that there would be no reduction in wages. Labor representatives pledged that there would be no strikes, no undue agitation for higher wages. The U.S.Chamber of Commerce promised to form a permanent national economic council to deal with the current emergencies. From industry and the railways, Hoover extracted promises that expenditures on improvements and expansion would go forward. Congress pledged bipartisan support for Hoover's plans to reduce taxes by some $160 million. The Treasury Department pledged to increase its public building program from $248 million to $423 million. From the Interstate Commerce Commission, Hoover demanded prompt action to allow railroad mergers in an effort to insure financial security through this consolidation that many sought. Hoover also demanded that the Subcommittee award 15 ocean mail contracts by January, which would require $200 million in new ship building. Even New York City pledged to speed up a $1 million contract for new construction. And from the Federal Reserve, Hoover demanded easy credit.

These were among the few lists of pledges that Hoover obtained during that lost week in November. But history still chooses to cast much of the blame upon this man for the Great Depression that eventually followed. Yet Hoover's actions were clean




and swift. They were positive steps toward increasing employment immediately. Yet there was something that didn't quite get to the point. There is a lot to be said for confidence. With it, the future can be molded and shaped, but without it, the future will mold and shape the events of man.

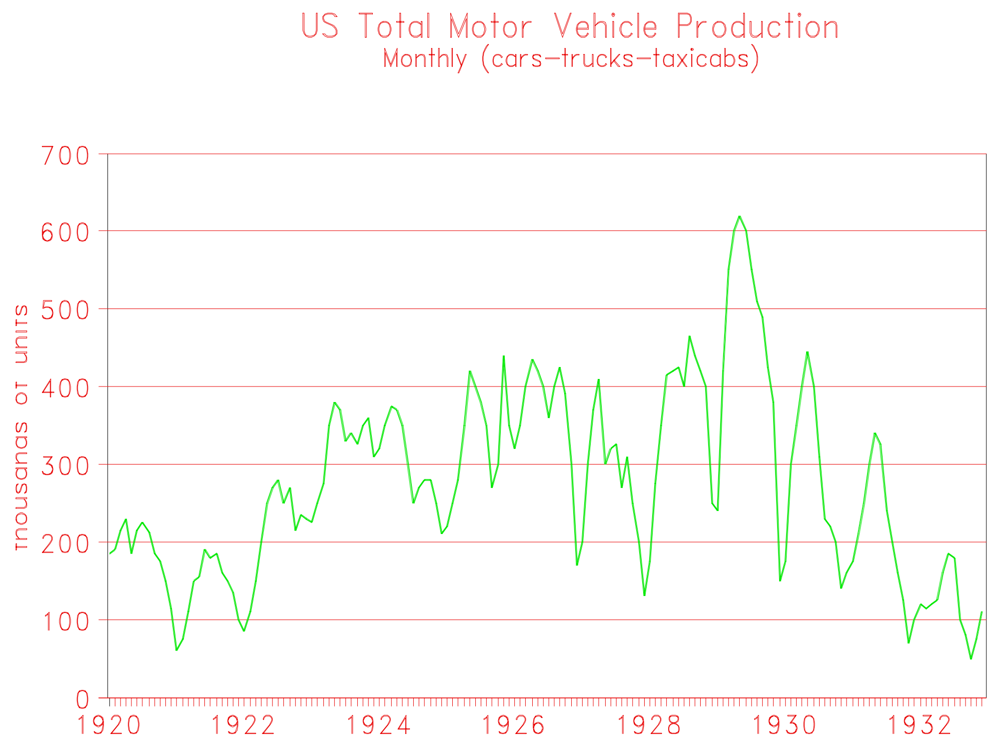
The meeting with Herbert Hoover that week was by far the most dramatic gathering in the history of American business. Friends, foes, and bitter competitors all gathered in common harmony to place their pledges upon the President's desk. There were many who naturally scoffed at the President from the ranks of the opposite party in Congress. This brought many editorials that demanded Congress to go home and leave the nation in the hands of President Hoover. Perhaps we will never know if that political bickering was the cause for the continued decline in confidence. But there are many times when politicians, who seek to strengthen their own positions, thrash out at a President with political rhetoric, which undermines not merely the President but the nation. It is a rare politician indeed who honestly thinks first of his nation and last of his own political career.

Henry Ford was one such attendee that day in Washington. When the meeting was over, Mr.Ford handed out a prepared statement giving his opinion of the situation. The market break he attributed to two causes:

1) "There was a serious withdrawal of brains from business by men who would otherwise have been working out better designs for commodities and better methods of manufacture and planning to put more value into their products.

2) "American production has come to equal and even surpass, not our people's power to consume, but their power to purchase."

Henry Ford also offered his solutions, which were as follows:




1) "Putting additional value into goods or reducing the prices to the level of actual value.

2) "Starting a movement to increase the general wage level."

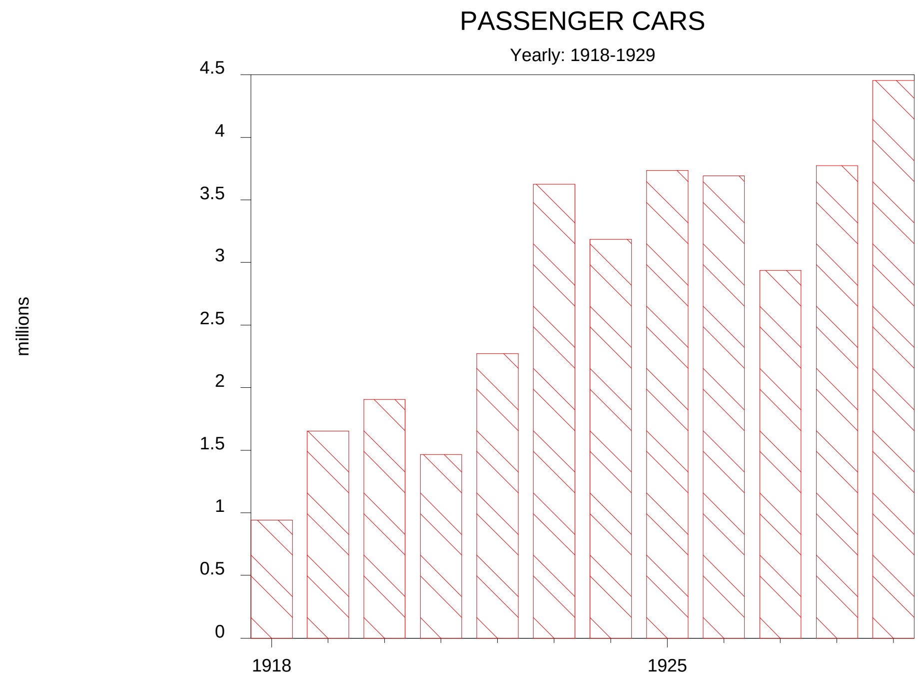
Ford's ideas did not exactly agree with those of President Hoover. The President was concerned about maintaining wages as were many business leaders. Ford sought to increase wages assuming that they would increase buying power. Ford returned and raised the wages of his employees.

Ford's ideas were a bit strange in some respects. Although there was not a serious wave of resignations from men choosing to become traders rather than work, many viewed the market as the easy road to riches. However, this could not be construed as a reason why the market crashed. But Ford was correct that production had reached levels requiring foreign markets because domestic markets could not absorb all the goods. Inflation on luxury items had risen significantly and this was true in many other areas as well. Thus, his suggestion to reduce prices to the level of actual value in a sense meant to reduce inflation.

The basic assumption at that time was that previous breaks in the stock market had normally prompted caution among the population, which in turn caused many to curtail spending out of fear for their future security. This occurrence is a natural event which Hoover clearly understood but he failed to prevent that natural sequence because it is something that belongs in the realm of human nature.

Nonetheless, his tactics are still employed in politics for both points of view. President Carter went on TV to state that he was serious about inflation yet no one listened. People often have made up their own minds and ominous or optimistic statements have little lasting effect unless the people themselves foresee the same conclusion.

When President Reagan was elected, spending in the private sector immediately declined. Expectations of future inflation

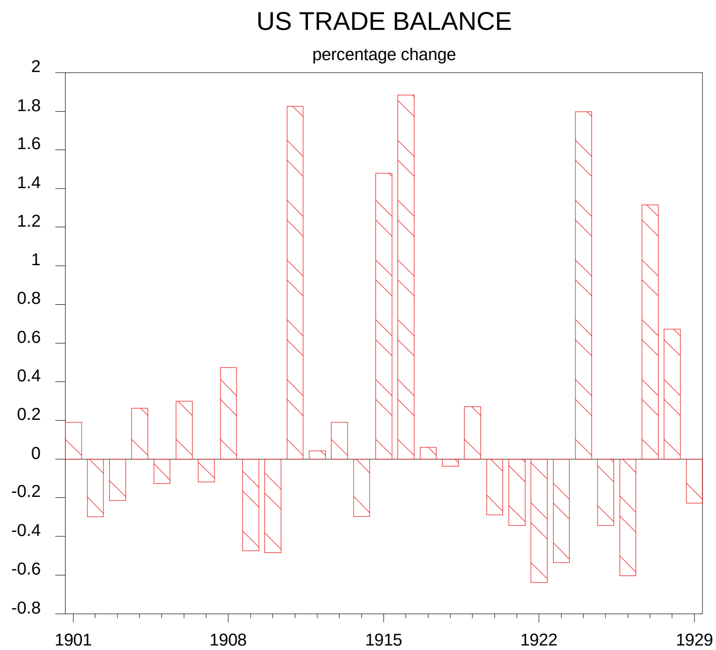



declined and savings began to rise. Much of the credit for stemming inflation does not rightfully belong to the Federal Reserve or directly to actions taken by President Reagan. The curbing of inflation took place because of the natural human instinct that dictated Reagan was serious about stopping inflation. People did not take Carter or the Federal Reserve for that matter - seriously. It was the election of a new President that shifted the anticipation factor within all Americans to expect that perhaps something different was going to take place.

This is the very same thing that Hoover was up against. He sought to get commitments from the private sector that they would not cut back out of fear but instead continue as if nothing had happened. Perhaps what President Hoover was asking from the people was something that was impossible to obtain. When it comes to money, people are very reluctant to spend their savings when they sense a change in the mood or anticipate uncertainty in the future.

For days the press reported numerous lists of cities such as Camden, New Jersey which pledged to employ 60,000 men in its city, county and federal building plan. The market during December remained cautious, yet firm. Monday, December 2 closed at 241.70, up only slightly following the Hoover conference. Yet by the end of the week, Friday, December 7. closed at 263.46. up nearly 10% on the week. The bonds continued to climb, closing that week at 94.57.

Friday, December 7, was the highest daily closing for the entire month. Monday, the 9th reached 267.56 for the highest intra-day point that month. But from then December would decline to 226.39 on Monday, December 23. After Christmas passed, the market rallied back to close that infamous year of 1929 at 248.43 on the industrials, well below the psychological 300 level, which was supposed to be lasting support.



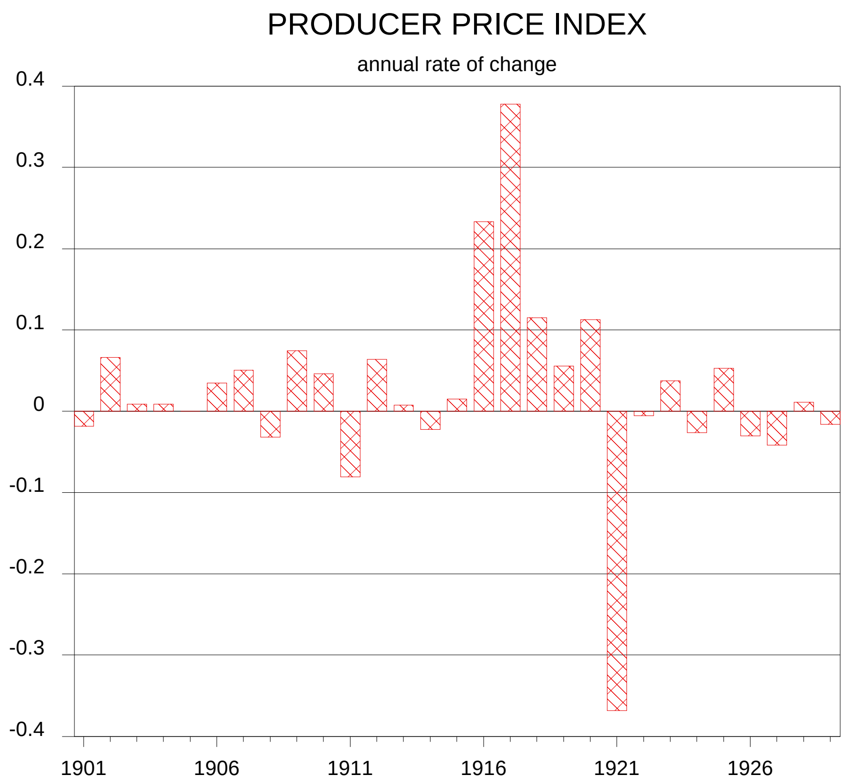

As expectations of 1930 began to take form, many viewed that it would be a quiet year for the stock market. The value of a seat on the exchange sold that December for $350,000, down $144,000 from the previously recorded sale.

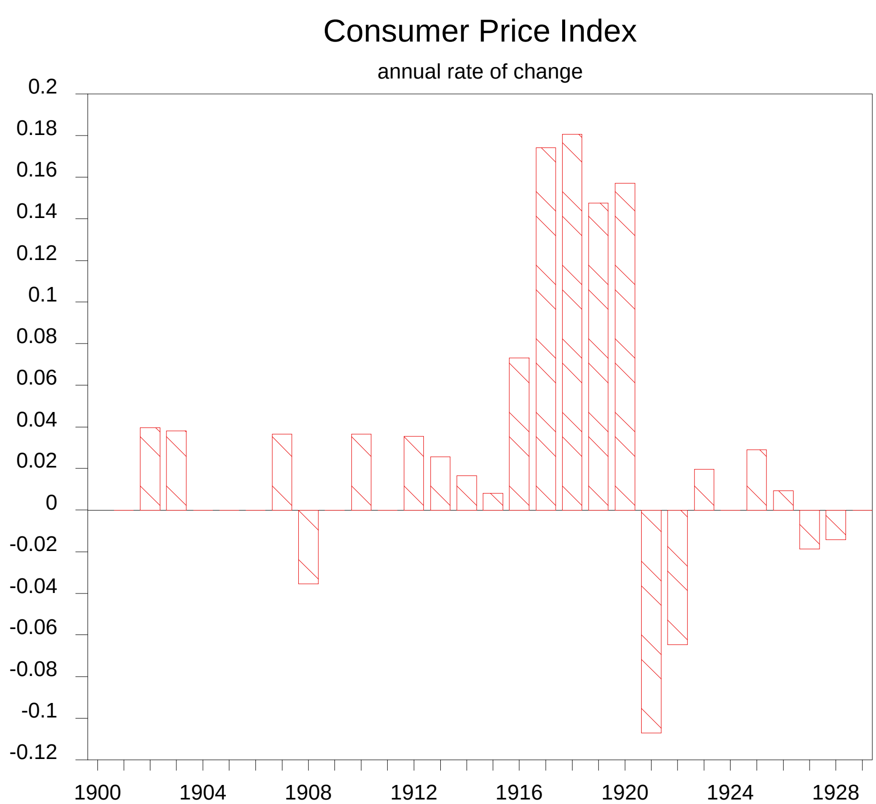
Perhaps one false investment concept that many were led to believe in 1980 was that diamonds have always hold their value. That statement on the part of merchants seeking to lure investors into their market place should be considered in light of December 1929. Then in Amsterdam, buyers literally could not be found at the famous Tulpstraat and at the Saphartistraat. The work week in this diamond cutting center was itself cut from six days to three. In Antwerp, which was the largest diamond cutting center in the world, 15,000 cutters were unemployed. All operations were closed between December 7 and 21 in London, the final source for 90% of all wholesale diamonds. Then the dealers in London suspended all sales to trade in an effort to help stabilize prices.

Diamonds, which supposedly were forever, fell in value by more than 50% following the trend of the stock markets around the world. The only difference between diamonds and stocks was the total non-liquidity. At least most stocks could be sold for the current bid. But in diamonds, there were no bids unless at destitute levels. And at times during the next two years, diamonds of investment grade, which were larger stones, fell more rapidly than even the stock market.

In the oil industry, a price war continued. The price of oil declined, threatening jobs and earnings of the top oil producers as the war between European and American producers escalated into harsh public statements from both sides of the Atlantic.

1929 would remain in the minds of men for decades if not centuries in the future. We all know now that the situation would get worse and that this break was merely the first stumble for a bull that had grown larger than any generation before it. But how and why the market would drop remains of vital


PRODUCER PRICE INDEX
annual rate of change
0.4
0.3
0.2
0.1
0
-0.1
-0.2
-0.3
-0.4
1901
1906
1911
1916
1921
1926


Consumer Price Index
annual rate of change
0.2
0.18
0.16
0.14
0.12
0.1
0.08
0.06
0.04
0.02
0
-0.02
-0.04
-0.06
-0.08
-0.1
-0.12
1900
1904
1908
1912
1916
1920
1924
1928

importance to us in trying to understand what the future will shape as we travel our own path on that road to a meeting with destiny.