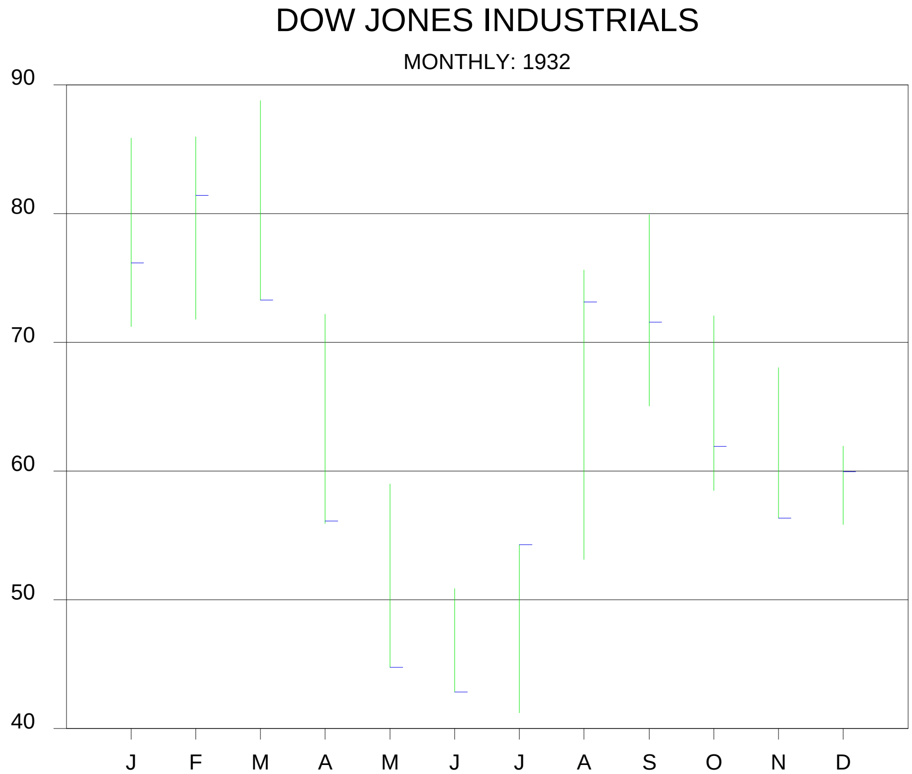
Chapter XII

1932



1932 arrived on the heels of one of the worst monetary panics of the 20th Century. Although fears began to subside over a devaluation of the dollar or an American abandonment of the gold standard, optimism over the world situation was difficult to find. Capital still remained shaky and ready to shift from one currency to another with what often seemed as whimsical as the change in tides or a shift in the wind. The political scene within the United States degenerated to one of the worst depths of which any democracy could possibly fall.

1932 was a year which brought communist demonstrations in Washington and politicians turned their sights upon the investment community as a whole. Some politicians accused its banks of intentionally trying to destroy the economy of the world in an effort to force the United States to cancel the outstanding war debts of Europe so that normal commercial debts could be settled with the banks. Of course no such plot had evolved but accusations were painted with a viol color of hate in no different a manner than that which sparked the Russian Revolution.

As if directly out of a text book in psychology 101, people began to accuse others of faults and deeds which they alone perhaps nourished in the depths of their perverse inner egos. This would be a year in which the American political system sank to the level not seen since the Spanish inquisition as it took on many of its horrible predecessor's attributes. Some politicians supported the total abolition of the stock market while others urged that the shorts should be exposed and jailed as if their actions rose to the level of treason. Although the politicians of the era would not admit that they had taken on many similar characteristics which distinguished the Russian Revolution, the deeds, words, acts, and accusations hurled at the investment community rang a familiar bell sounding the words once written by Joseph Stalin in his "Kampf."

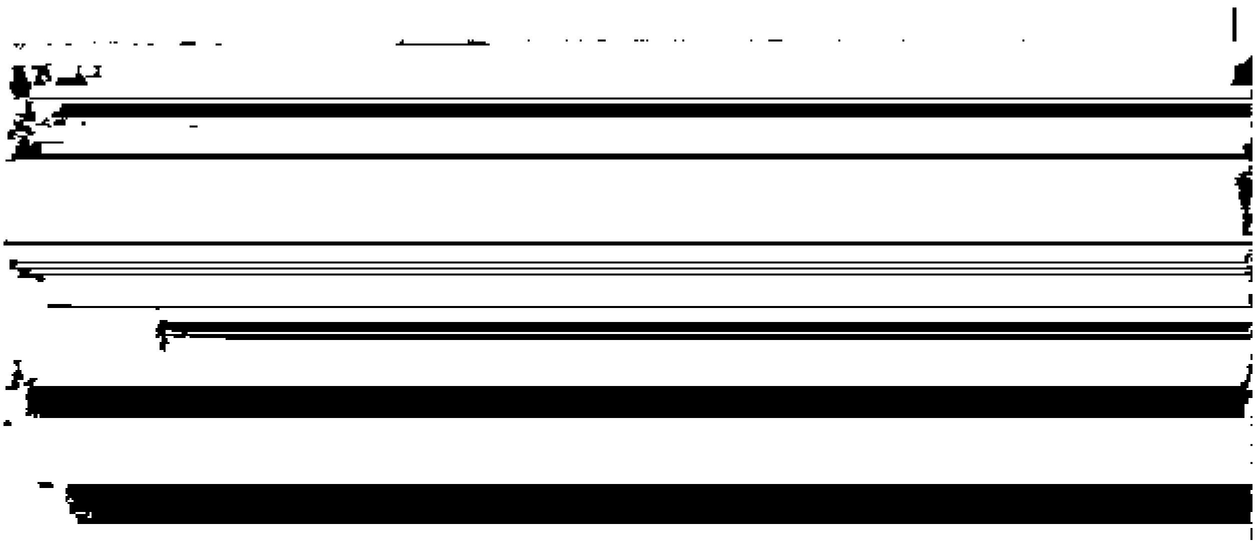
"What is the sharpening of the class struggle due to? It is due to the fact that the capitalist elements will not depart from the scene voluntarily; they resist and will continue to resist socialism, for they see that the last days of their existence are approaching. And they are still in a position to resist, since in spite of their relative decrease, absolutely, they still continue to increase; the petty bourgeoisie of town and country, as Lenin said, daily and hourly, throw up from their ranks capitalists and small capitalists and these capitalist elements go to any length to preserve their existence.

"There have yet been no cases in history when dying classes have voluntarily departed from the scene. There have been no cases in history when the dying bourgeoisie has not exerted all its remaining strength to preserve its existence. Whether our lower apparatus is good or bad, our advance, our offensive, will reduce the numbers of the capitalist elements and force them out of existence, and they, the dying classes, will resist at all costs."

Stalin's words ring loud of hatred and bitterness. The Russian Revolution had been born from the Panic of 1919 when commodity prices collapsed and unemployment ran high. When nothing is left to lose, revolution often fills the emptiness of the moment bringing joyous illusions of utopia and monetary equality for all. In the same manner that the Russian communist movement began with placing all the blame upon the rich, here too in the United States politicians turned on their own rich class with a sinister intention of placing the blame for all upon the yoke with which they now sought to enslave that class of society.

Despite the numerous spending programs implemented by President Hoover, nothing seemed to be working. Confidence was lacking and international distrust and skepticism reigned supreme. People were reluctant to fill orders unless paid in advance fearing that payment in the end might somehow never arrive. These fears only further dampened world trade and the prospects of recovery both economically as well as in the price levels of commodities and stocks not to mention bonds.

The bond markets of the world were devastated by the monetary crisis of 1931. Much of the municipal as well as federal issues of South American bonds had gone into default. Now only super well financed American corporate bonds retained any sense of value while everything else, with the exception of U.S. Liberty Bonds and Treasury Bonds, crumbled in wake of default fears. Many viewed the bond market as if it were a game of Russian roulette when at any moment some other play would be struck with a fatal wound.

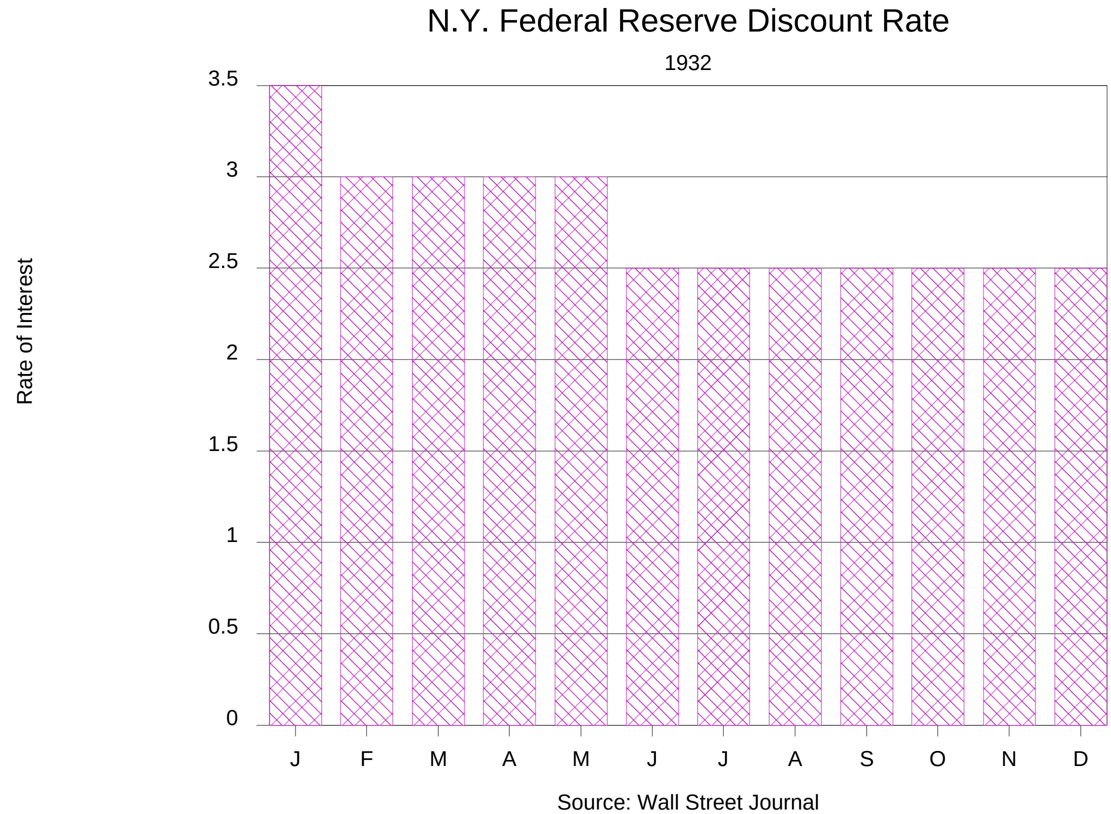


Despite the easing of interest rates on the part of the Federal Reserve, bonds collapsed as the market demanded yields that were now as high as 5 times that of the discount rate. Despite the easing by the Fed, the bond market continued to collapse as security dominated yield. Real estate backed bonds decayed as tangible assets far outnumbered hard cash and thus a sharp contraction in the value of all tangible assets could not be avoided.

As January of 1932 made its presence felt upon the nation, any hopes began to dissipate half way through the month. January 1 had begun with the total of listed securities on the New York Stock Exchange valued at $26.6 billion down significantly from nearly $90 billion at the peak in 1929. On January 1, the U.S. Bureau of Mines reported that world production of petroleum during 1931 had declined 2.8% from 1930 levels. This worked out to be 1.3 billion barrels for total world production, yet the U.S. production share was 850 million of that figure. Despite everything, the United States was still the major producer of oil prior to World War II.

Gasoline exports were off 30% during 1931 from 1930 levels. Storage of gasoline during 1931 had increased by nearly 5%. Bituminous coal production stood at 378 million tons for 1931, which was a decline of 19.1% from 1930 levels. Anthracite production declined 14.2% from 1930 levels, coming in at 59 million tons for 1931.

The value of exports during 1931 totaled $2.4 billion which was a decline of 36.7% from 1930 levels. Imports were $2.08 billion, a decline of 31.7% during 1931. The figures clearly illustrated that the U.S. trade surplus was still narrowing despite the so-called age of protectionism.



The bad news that January had brought continued. The American Railway Association announced that freight loading revenue had declined during 1931 by 18.8%. Union railway workers agreed to accept a 10% wage cut yet this was being interpreted as bullish at the time. Shipbuilding yards were working at 40% of capacity while at the end of 1931, ships under contract were $58 million compared to $90 million at the end of 1930. Steel ingot production was running at 28% of capacity and declining. Building construction, as reported from 354 cities across the nation, showed a decline of nearly 28% from the amount spent during 1930. Business failures were one of the few things to rise during 1931. For 1931, failures totaled 28,275 with liabilities of $733 million. In 1930, these figures were 26,355 with liabilities of $668 million.

The Senate Finance Committee was conducting hearings into international banking and war debts. Testifying was Otto Hermann Kahn who was requested to provide the Senate with a complete listing of all foreign bond issues which were currently in default. He obtained that information from the institute of international Finance and the Senate made that list public in January 1932. To the dismay of many, the list totaled $815 million worth of foreign bonds denominated in dollars. The default involved 57 issues and all were an obligation of a South American government, state or municipality. It was revealed that Bolivia, Brazil, Chile and Peru had all defaulted on their government obligations. In Columbia and Uruguay, local issues had lapsed into default.

Two shocking aspects were also revealed. First, the majority of the junk bonds were held by the small investor who had been lured into buying them by numerous advertising campaigns which touted bonds as the "safe" investment. The other interesting aspect was how the banks were coping with the situation. The Comptroller of the Currency issued a demand to all national banks that they report on what bonds they were holding. But this problem had been recognized back in August 1930. Even good bonds had been devastated and banks either faced huge paper losses on what they held, or suffered actual cash losses if they sold. The situation was deemed to be serious, but the Comptroller of the Currency decided to allow the banks to carry the bonds at their cost which naturally boosted their statements and masked many of the grievous problems that faced the banking industry at that time.

The report on the gold to paper currency ratio at the Federal Reserve clearly illustrated that gold hoarding continued to increase. The ratio of gold to bank notes and deposits stood at 73.7% at the end of 1930. But at the end of 1931 the ratio declined to 61.9%.

In Brooklyn, an excited woman was reportedly seen running down the street screaming "The bank is closed! The bank is closed!" What she was so boisterous about was in reality a false alarm. The bank involved was the East New York Savings Bank which had decided to cut its Saturday hours to noon instead of 4 PM and had posted a notice to that effect on the door. But the woman hadn't looked closely enough to see it. Well $8 million in cash and swarms of extra tellers managed to meet head on the run that she had caused. In the aftermath, withdrawals came to $3.5 million against deposits of $67.4 million. Although this had been an unfortunate false alarm, the majority of such circumstances were not.

In spite of the National Credit Corporation, bank failures were still hitting the papers almost daily. The fears of the people were obviously high and all a bank had to do was close early and a run was virtually guaranteed. The National Credit Corporation's policy, however, was to advance loans only upon sound collateral. In January 1932, it made its first draw of $50 million to cover payments due its creditors.

The good news during January 1932 was the talk of Hoover's Reconstruction Finance Corporation. Most of the optimism during January had been centered around this issue. Everyone talked about the huge reservoir of credit, which would stimulate the economy, combined with the proposed 10% wage reductions in the railroad industry. Many believed that these efforts would surely get the ball rolling once again.

The railroads, which had declined for six months straight during the second half of 1930, rebounded quite sharply during the first two weeks in January. From the December 1931 low of nearly 31 on the Dow Jones Index, the rails rallied sharply up to 41.5 in early January. The news that the unions were most likely going to accept a 10% wage reduction sparked a 33% rally which was awesome. But by the end of January, the rails fell back and closed at 37.

The Dow Jones Industrials, which had traded in a choppy yet essentially straight down pattern finishing 1931 on its low, rallied from that December 1931 low of 73. The industrials reached nearly 86 in early January which was about a 19% gain. But they finished January back down at the 76 level.

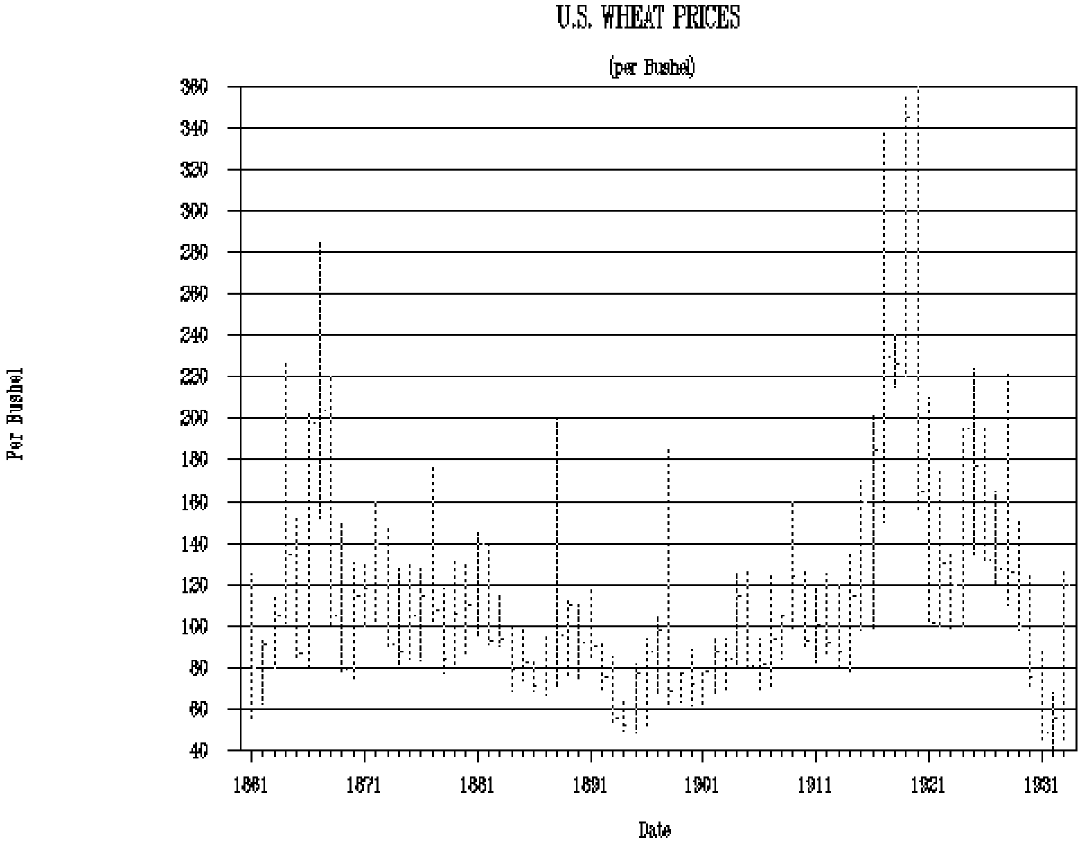
The bonds, which had collapsed primarily due to the South American defaults, did not rally that much and, in fact, they remained within the trading range that had been established during December 1931. They did manage to close only 1 point above the December closing at the end of January.

The automobile industry had come a long way. By 1932, it ranked next to agriculture and railroads in capital investment. It consumed 15.5% of all U.S. steel production, 17.4% of aluminum, 82.6% of the American rubber, 30% of nickel production and 26% of all lead produced. By this time G.M. had a market share of 43%. Commodity prices continued to decline as auto production also declined. 1931 auto production was 2.3 million units including cars, trucks and taxicabs. This compared with 3.3 million during 1930 and 5.3 million in 1929. The 1931 auto production was off nearly 33% from 1930 levels and nearly 55% from 1929 levels.

During February, the industrials rallied back to the January high but managed to close above the 80 level. The rally had begun rather abruptly on February 11 when news came from Washington that Hoover had managed to obtain cooperation from all parties to usher through the Glass-Steagal bill. This bill broadened the scope of paper which was eligible for rediscounting at the Federal Reserve. This was viewed as a liberalization at the Fed which would in turn help many banks to unfreeze assets that were previously unacceptable as collateral at the Fed. The bill was signed by Hoover on February 27.

The rally was further sparked by the new rules imposed by the New York Stock Exchange against short selling. The Exchange restricted brokers from lending customer stock to shorts without obtaining written permission from the customer that his stock may be used in that manner.

Another factor behind the rally was news of war between China and Japan. The war

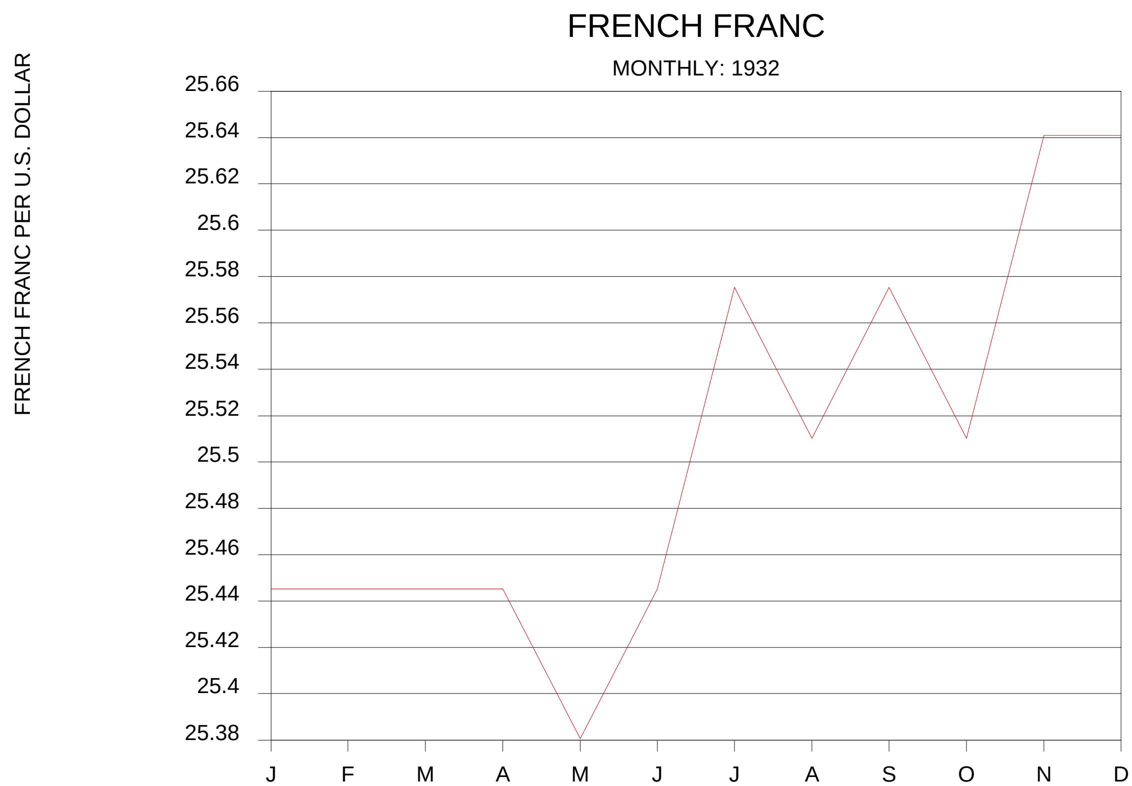


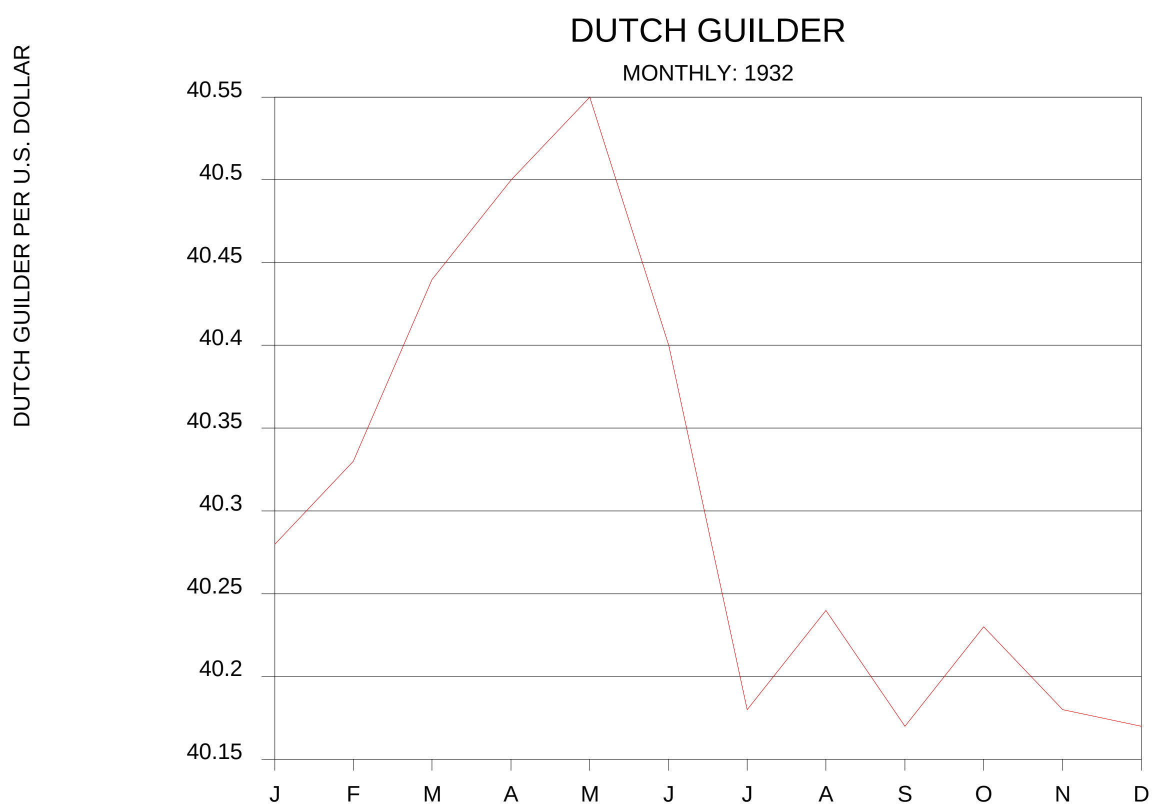
scare drove the price of March wheat in Chicago up from 2 3/8 cents to 58 3/4 cents. This is no typo. The rally was unbelievable but the declines that followed were equally great and wheat fell to new record lows in July and again in November. In the stock market many speculated on what companies would benefit. But the yen itself collapsed. Japan had abandoned the gold standard just a few months before. The yen fell from the par level of 49.84 cents to 35 cents. Japanese bonds collapsed from 100 to 61. The total U.S. investment in Japan was reported to be some $450 million, of which $390 million was Japanese bonds. The real concern centered over the fact that Japan's gold reserves had dropped to $190 million which represented half of the outstanding debt to the United States alone.

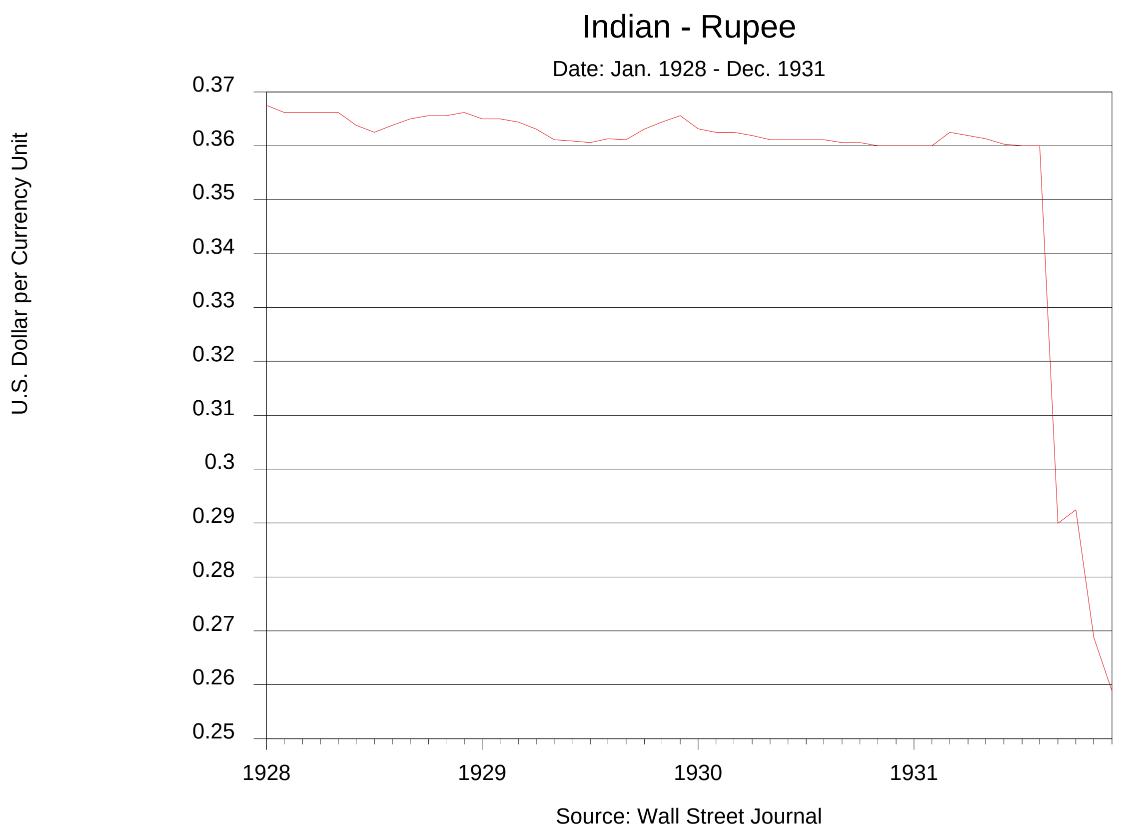
The Dow Jones Industrials sold off a bit toward the end of the month when on February 29 the State of New York raised the tax on stock transfers from 2 cents to 4 cents per share. Depression or not, some states offset declining revenue due to lower levels of economic activity.

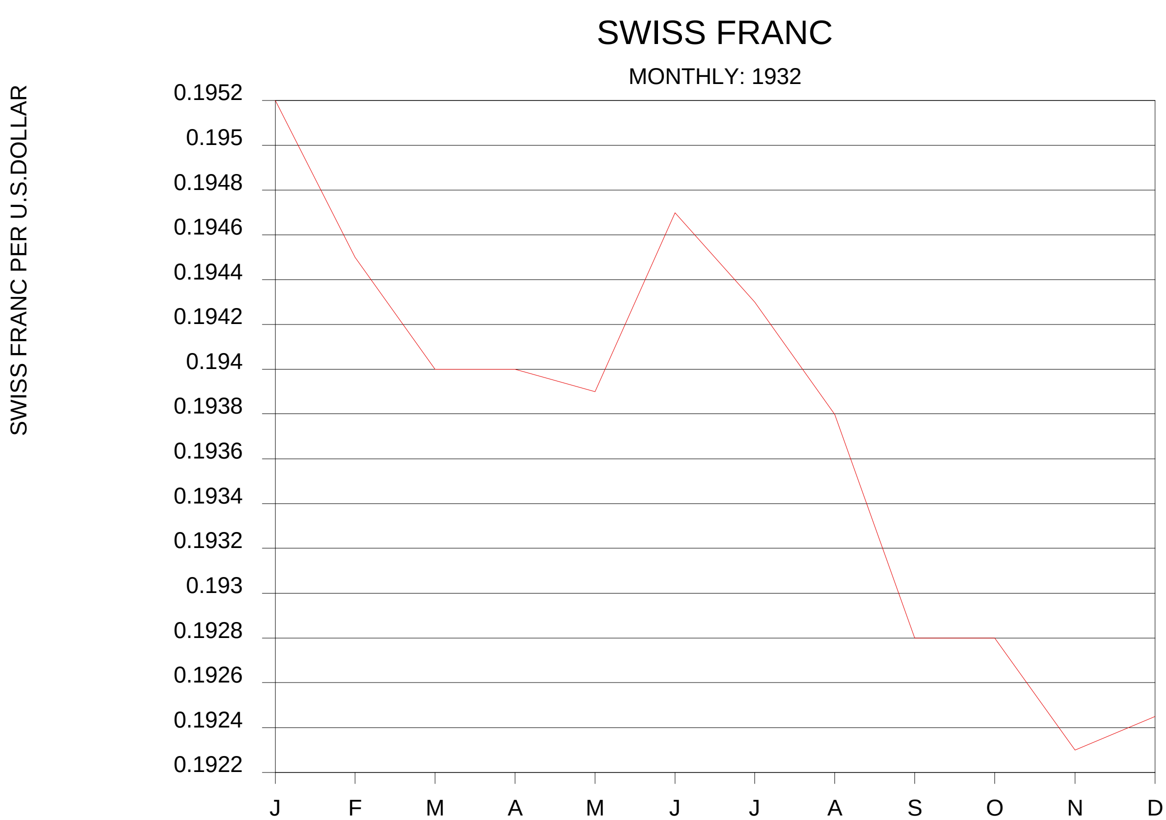
The Fed had lowered the discount rate from 3.5% to 3% on February 26 but this had little effect upon the market considering the dramatic increases that took place during October 1931. Call money remained low, averaging between 3.5% to 3% during the first quarter of 1932.

In Germany, the government approved the merger of two leading banks. They were Dresdner and Darmstaedter. In France, the government placed restrictions upon the amount of gold it would pay under its gold standard. To avoid demand from the French public, reputed to be the largest gold hoarding people in the world, the French government stated that it would only make gold payments in $8,000 lot mini-


FRENCH FRANC
MONTHLY: 1932
FRENCH FRANC PER U.S. DOLLAR
25.66
25.64
25.62
25.6
25.58
25.56
25.54
25.52
25.5
25.48
25.46
25.44
25.42
25.4
25.38
J F M A M J J A S O N D


DUTCH GUILDER
MONTHLY: 1932
DUTCH GUILDER PER U.S. DOLLAR
40.55
40.5
40.45
40.4
40.35
40.3
40.25
40.2
40.15
J F M A M J J A S O N D


Indian - Rupee
Date: Jan. 1928 - Dec. 1931
U.S. Dollar per Currency Unit
0.37
0.36
0.35
0.34
0.33
0.32
0.31
0.3
0.29
0.28
0.27
0.26
0.25
1928
1929
1930
1931
Source: Wall Street Journal


SWISS FRANC
MONTHLY: 1932
SWISS FRANC PER U.S.DOLLAR
0.1952
0.195
0.1948
0.1946
0.1944
0.1942
0.194
0.1938
0.1936
0.1934
0.1932
0.193
0.1928
0.1926
0.1924
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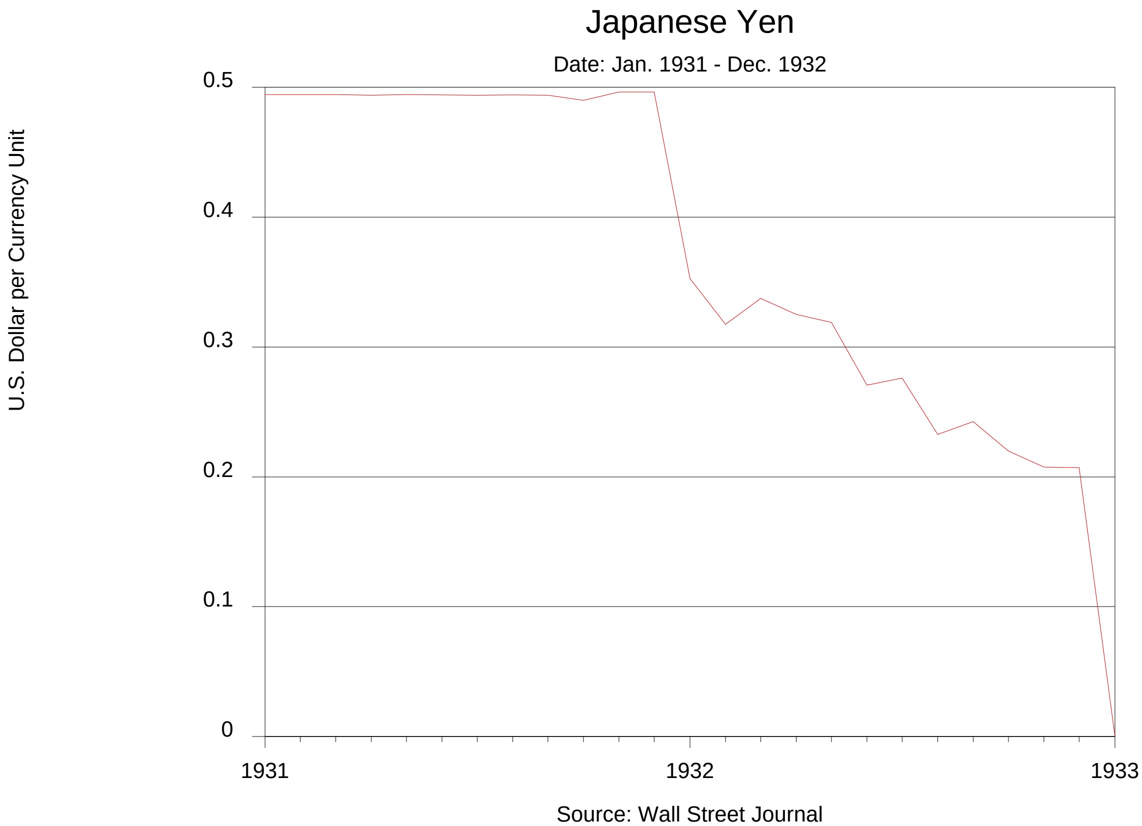


mums. As a result, gold coins were in high demand.

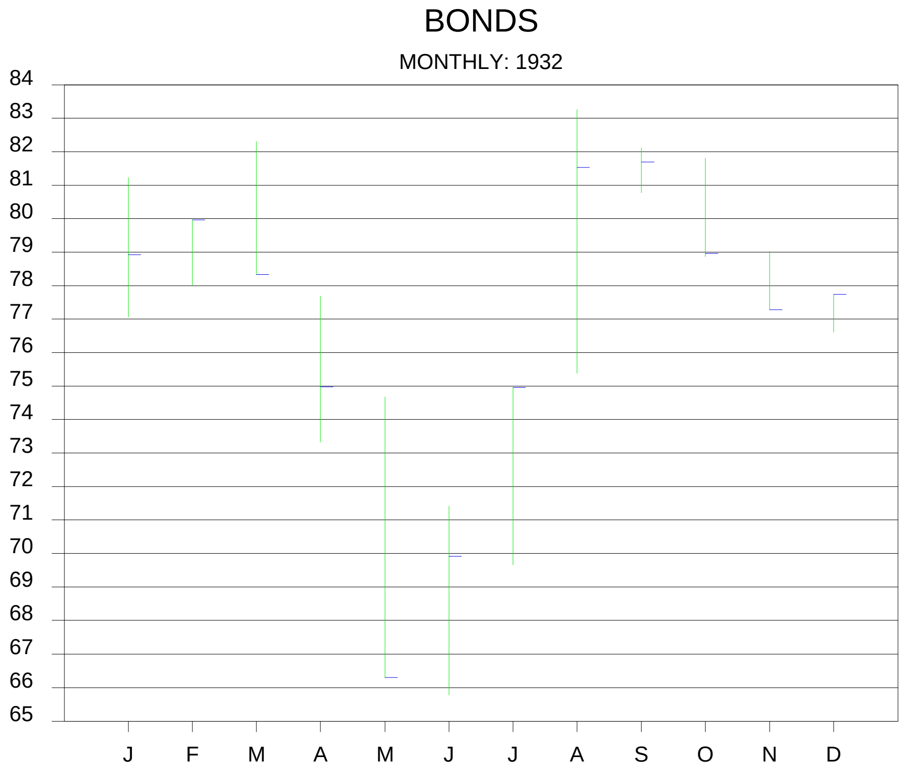
In the French papers, advertisements began to appear offering U.S. $20 gold coins at a premium. The coins were selling for $21.50 (550fr) at first and then began to rise to $25. The demand became so great that the shipping companies announced a price-hike to transport gold coin. The shipping rates are raised from $1.875 per million to $2,500. The New York banks, which did not profit from these transactions refused to release gold coins and informed the French gold dealers that they had to apply to the Federal Reserve Bank or the U.S. Assay Office. U.S. $20 gold coins began to rise even further reaching as much as $30. To this very day, huge hoards of United States gold coins remain in Europe.

Amidst the scramble for gold, a mining fever broke out in Sweden where some 41 claims had been staked out. Actual bullion mined during 1931 amounted to nearly $7 million.

In the United States, many contracts began to be issued in terms which required payment in gold coin. On the streets, U.S. gold coin began to command a premium over and above paper currency.

While gold was rising in street value, other commodities continued to decline. Sugar fell to 1 cent per pound a record low. Copper was bringing 6 7/8 cents per pound for export and 6 1/4 cents for domestic delivery. Copper was so depressed that an offer to throw in 50 shares of Anaconda or Kennecott was made for each 1,000 ton order. Rubber fell through its old historic low dropping to 4 cents in February.

In February, the business failure statistics for January were released. They were the



highest on record for any month. During the first month in 1932, 3,065 firms bit the dust and along with them $266 million in liabilities. Among the failure listings were 290 banks which accounted for $145 million in the liability figures.

Among those that went into receivership during January 1932, one found a variety of companies. Several sugar companies went down along with utilities such as Texas-Louisiana Power Co., Piedmont Utilities Co., and Arizona Edison. Also included were Hamilton Gas Co., Hudson River Navigation Corp. Western Steel Products Ltd., Long- Bell Lumber Corp., and the Cincinnati & Lake Erie Railroad Company. The list of failures was indeed widespread, touching commodity oriented companies as well as railroads and utilities industries which today are regarded as semi-blue chip.

Yet there are always exceptions. Some Utilities posted higher earnings for 1931 over and above those reported during 1930. There were some problems in analyzing the earnings. A number of companies were selling off assets and chalking up profits and posting them to the earnings columns. This naturally distorted some of the figures. F.W. Woolworth was one such example. It reported 1931 earnings of $41 million compared to $35 million during 1930. But the company had sold off stock in its British venture, realizing $10 million in profit. Therefore, the true picture from sales illustrated a $31 million earnings record for 1931 which was down slightly more than 10% from 1930.

Most manufacturers were not so lucky. In a survey released by the National City Bank, it was revealed that 1931 earnings were off 72% from 1929 levels and 52.9% from 1930 levels. Deficits were reported by 39% of U.S. corporations. The industries that seemed to do the best were tobacco, shoes, and chain stores. The following listing compares 1931 and 1930 earnings of a few selected companies.

Earnings Comparison in Millions US$

Company	1931	1930	% change
American Tobacco	46,189	43,294	+ 6.2
AT&T	166,666	165,544	+ 0.6
Auburn Automobile	3,579	1,018	+ 71.5
Brown shoe	1,356	1,334	+ 3.2
Caterpillar Tractor	1,361	8,714	-84.3
Coca-Cola	14,023	13,515	+ 7.2
Cream of Wheat	1,504	1,868	-19.4
Firestone Tire	4,219	1,541	+ 63.4
General Electric	40,956	57,490	-28.7
McGraw-Hill	869	2,021	-57.0
National Distillers	372	307	+ 17.4
R.J. Reynolds	36,396	34,256	+ 5.8
Scott Paper	997	986	+ 1.1
Standard Brands	14,542	16,402	-11.3

The bonds consolidated during February, trading between 80 and 78. During March they rallied slightly above the 82 level which at least had barely penetrated the December 1931 high. But by the end of March the bonds literally collapsed, falling to slightly above 78 and closing on the low for the month.

During the very early part of March, the markets were quite active. The Dow Jones Industrials had rallied to a new high for the year testing 88.78; railroads 38.65; and the utilities 35.92. But March was a busy month. The U.S. Senate adopted a resolution on March 4 to investigate stock market trading. The sentiment had turned in favour of blaming the entire affair on those who were selling the market short. Time magazine carried this little note on March 14 remarking about the sentiment toward the shorts.

"Most U.S. citizens have been hurt by the decline in prices. Many of them cannot believe present prices are justified by future prospects. Most of them believe bears 'selling what they did not own' depress prices. Many of them including their President are sure that the market's decline made business worse. In normal times nobody likes a bear. When the bear has been right and the people wrong, they dislike him even more intensely. Wall Street last week awaited the start of the Senate's investigation with some fear, much curiosity. Its fear was chiefly that the probe might evolve into a punitive bear-hunt out of which would grow legislative restrictions upon a free and open market."

When the Senate's investigation began there was no doubt in its members' minds that the target of their efforts was the bears. The sentiment was clear. There were few who did not enter that investigation without some malice toward the short sellers. The chairman of the Banking & Currency Committee Peter Norbeck, mounted the attack. When the press asked him for a comment as to what effect his investigation would have on the stock market, his reply was simply: "I don't know and I don't care!" Between Norbeck and the infamous Senator Glass, reputed for his hatred and his rash accusations throughout the collapse of the market, it was Senator Frederic C. Walcott and Senator James Couzens who at least managed to persuade the Committee to investigate the bulls as well as the bears. Senator Couzens told the press: "We are not seeking sensationalism...and we are going about this in a sane way. There is no intention...to seek legislation interfering with the regular operations of the stock exchanges."

On March 7, President Hoover authorized the American National Red Cross to distribute 40 million bushels of wheat for relief purposes. That wheat was provided by the Grain Stabilization Corporation. On

March 9, the Department of Agriculture announced that crops would be substantially higher. Corn production was estimated to rise from 703 million bushels to 1.1 billion. Wheat production was estimated to jump from 161 million bushels to 207 million. Commodities in general remained depressed and production seemed to only increase.

In March, a well-known accounting firm released its survey of the situation. The firm of Ernst & Ernst reported that a 1921 study of 379 industrials showed that the companies had suffered a decline in total earnings of 91.64% from the 1920 high into 1921. In 1931, however, their analysis illustrated a shocking difference. These same companies posted earnings which had declined by only 78.09%. The Dow Jones Industrials themselves were posting a combined decline in earnings from the 1929 high to the end of 1931 of some 79.78%. This study illustrated the paradox which faced the nation. Here earnings were still at least present and on the surface did not appear to be as devastated as they were during the panic of 1920 moving into the deflationary period of 1921. Yet in 1932, prices were substantially the same or perhaps lower in comparison to the lows which had been established during 1921. There was no logic to this period of the Great Depression. It was an emotional period of withdrawal which in turn was reflected in the prices of common stock. On March 12, 1932 came news that Ivar Kreuger, chairman of the famous Swedish Match Co., and Kreuger & Toll, committed suicide. This was the man who had lent nations money to promote his match monopoly. Details of why were not yet available but the market sold off as another wealthy industrialist joined his ancestors. The details would be known soon and the scandal only grew.

As the first quarter of 1932 came to a conclusion, most remained very confused. Banking scares continued to dominate the issue of everyday life and suicide reports continued to show up in the obituaries. Fear over the new investigations loomed over the stock market like ventures, and the future seemed to be bleak despite the various programs which Hoover continued to institute in hope of stemming the tide of pessimism as well as decline in economic activity. Spending levels on the part of government continued to bring nothing but fleeting hopes which soon disappeared with the next day's trading activity.

During the first quarter of 1932, volume in the New York Stock Exchange had declined sharply from levels recorded during the decline in December 1930 which had reached 50 million shares for the entire month. When the trend turned upward in January 1932, volume had declined to 34.3 million shares, a noticeable decrease from December when the trend had been down. As the market consolidated in February yet pushed a bit higher, volume declined even further, posting sales of only 31.7 million shares. As the market continued to rally during the early part of March, volume averaged 1.5 million shares per day. Toward the later portion of March as the market began to collapse, volume actually declined but overall the month of March showed a slight increase posting sales of 33 million shares.

The trend was still obviously biased toward the downside. Volume on the other hand began to diminish sharply, dropping to 31.4 million shares in April followed by 23 million share periods during May and June when the market was moving into its final low. Interest in the stock market had declined significantly as many a floor broker died a slow and boring death. Yet on a percentage basis, the market was about ready to equal the force of the panic of 1907 and that of the panic of 1920 on a price level. Volume clearly began to dry up after the sharp blood bath of 1931. Most of the speculative positions had been wiped out by that time. When the market moved into the summer of 1932 for its final low, trading was substantially lower than it had been during previous years.

As the second quarter of April emerged, the Dow Jones Industrials continued with the same trend that March had sustained until the bitter end. The industrials opened about unchanged and managed to test 74.38, closing at 72.18 that day. April 1 had established the high for the entire month. The railroads utilities and the bonds all established their highs for the month of April virtually on the opening bell. From there onward, April would bring only more devastation. By Tuesday, April 5, the industrials had fallen to within a few points of the 1921 low. Normally, any technical trader would expect that the market would at least pause at such an important previous low. But on April 8, the market hardly remembered what the 1921 low had been as it fell right through it, establishing the low of the day at 61.98 and closing under the 1921 low which was 63.90. Volume had reached 2.2 million shares that day. Such volume above the 2 million share level was becoming a rare event in itself. Volume on some days had declined to as little as 471,000 shares.

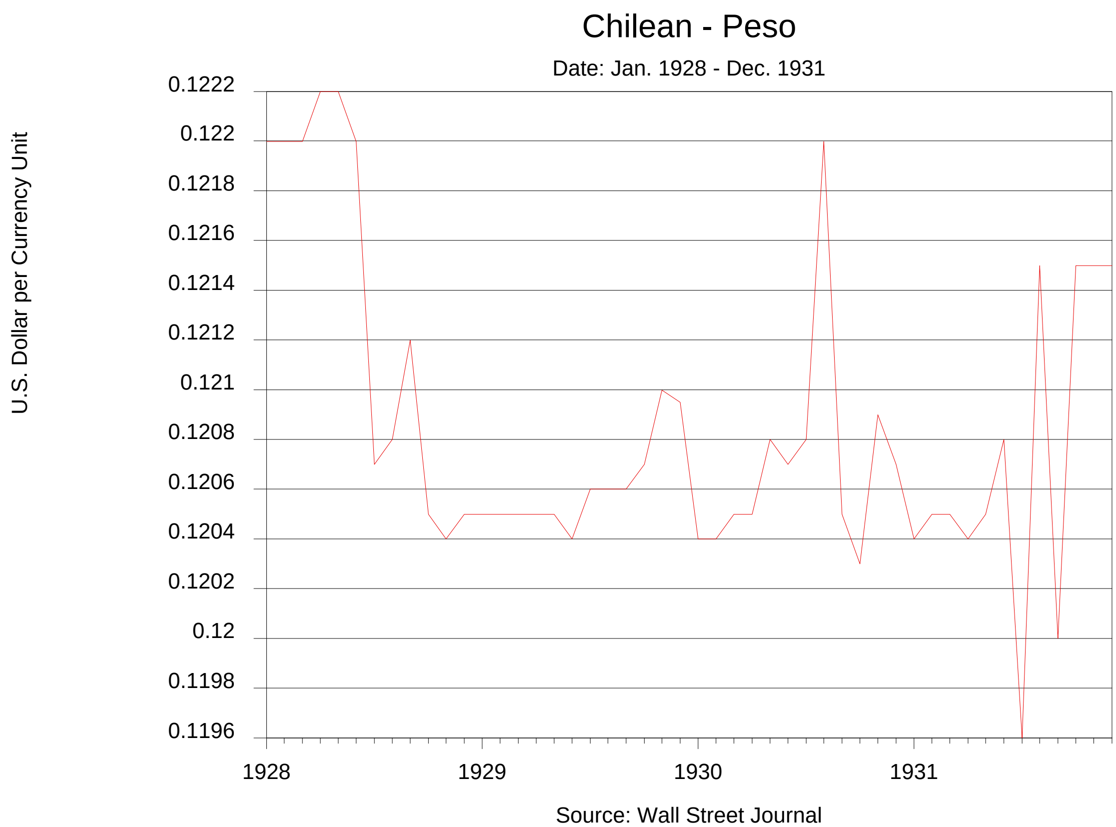
April seemed to exemplify the famous Murphy's Law of "whatever can go wrong will go wrong," to its full meaning. That was the fate for the stock market as the second quarter had begun. The month of April continued to witness a massive liquidation of stock positions. Week after week the market continued lower plagued by the threat of the Senate investigation coupled with bearish reports that railroad car loadings continued to fall. From Washington, the market feared the pending tax bill and among its own ranks, it was very displeased when U.S. Steel announced the omission of its dividend. Other companies began to follow this lead and dividend omissions began to rise.

On April 5, news came that Montagu Norman had been reappointed as the Governor of the Bank of England for the thirteenth time. In Stockholm a commission was appointed to investigate the dealings of Kreuger & Toll as rumor gave way to the reality of huge misrepresentations. Meanwhile in Germany, Paul Von Hindenburg was elected President by a majority of nearly 6 million votes on April 10.

The League of Nations reported on April 12 that international unemployment was estimated to be approximately 20 million. The U.S. State Department began holding a conference to consider what steps could possibly be taken to protect the U.S. holders of foreign bond issues which were in default.

On the 16th of April, the Middle West Utilities Co. applied for an application to enter into receivership. This was merely another nail in the coffin which sent shivers down the spines of those who had thought that at least utilities would weather the economic storm.

On the 19th of April, Chile abandoned the gold standard. For nine months, Chile unsuccessfully attempted to maintain the peso at par. They had imposed extremely rigid foreign exchange controls but sumptuary laws could not overcome the reality of the situation. Fears of further loan defaults sent the bonds crashing down nearly 30 basis points that day.

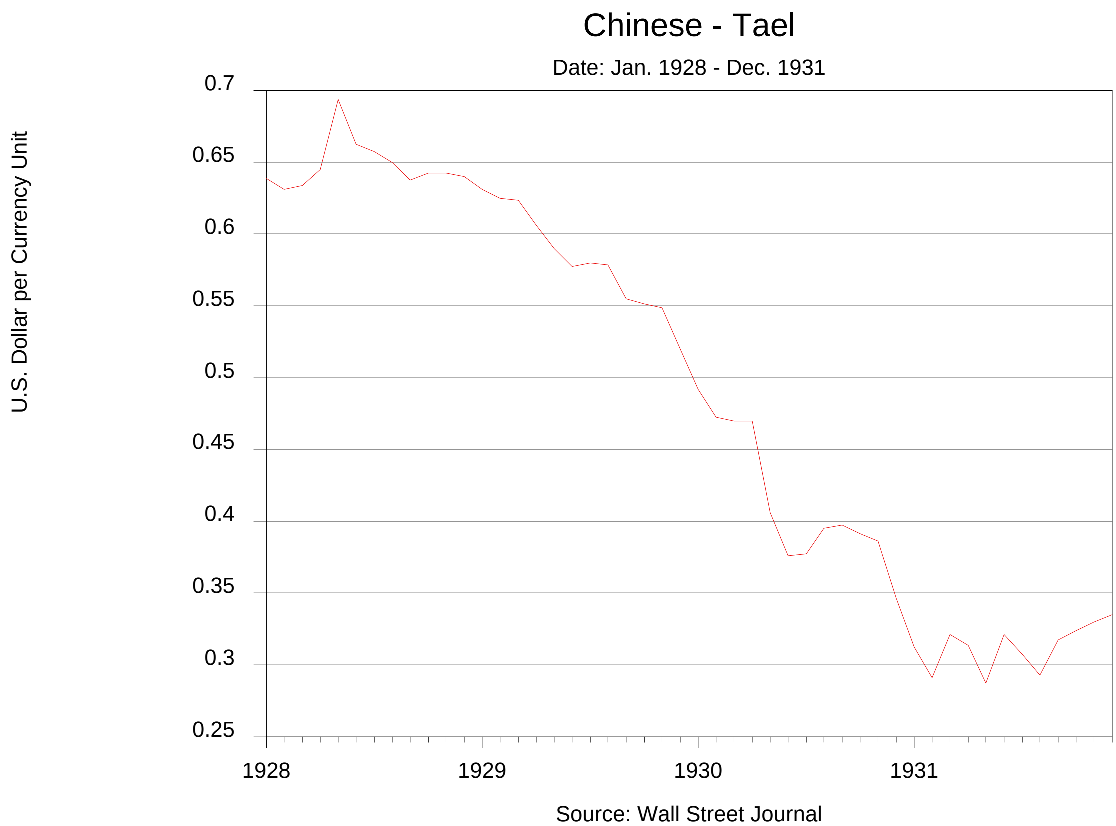


On the 25th of April, Greece also abandoned the gold standard. Foreign exchange markets were in disarray. The British pound, which had fallen from the par value last seen during April, 1931 before the devaluation, had begun to fall once again, dropping to $3.65 from its March high of $3.77. The downtrend would eventually continue into November of 1932 when the pound would drop to $3.15. Now only the French and the Swiss currencies remained steady.

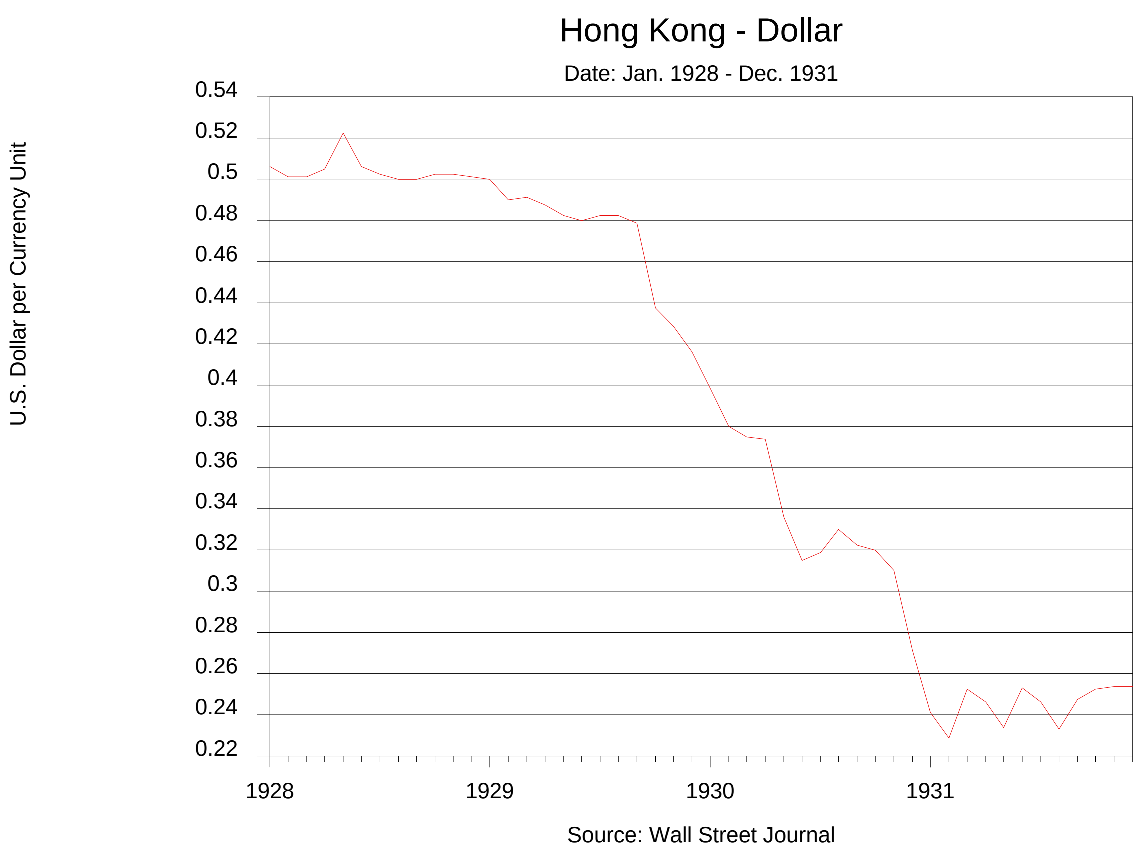
Trading volume on the New York Stock Exchange during April had declined to 31.4 million shares. This was the first panic sell off where new lows were achieved on lower volume.

Time magazine reported in its April 4, 1932 edition that corporations were writing down the stated value of their common stock. Common stock was carried on the liabilities side of the balance shoot. By writing down the value of their common stock, they obviously reduced their liabilities and enhanced the overall appearance of the company's books. In many cases, this created a surplus which to some degree further clouded the true performance during the period. But in one sense, the liabilities had been greatly reduced. After all, the value of the Dow Jones Industrials was now 20% of the 1929 high. Therefore, their liabilities were considerably less in a very real sense.

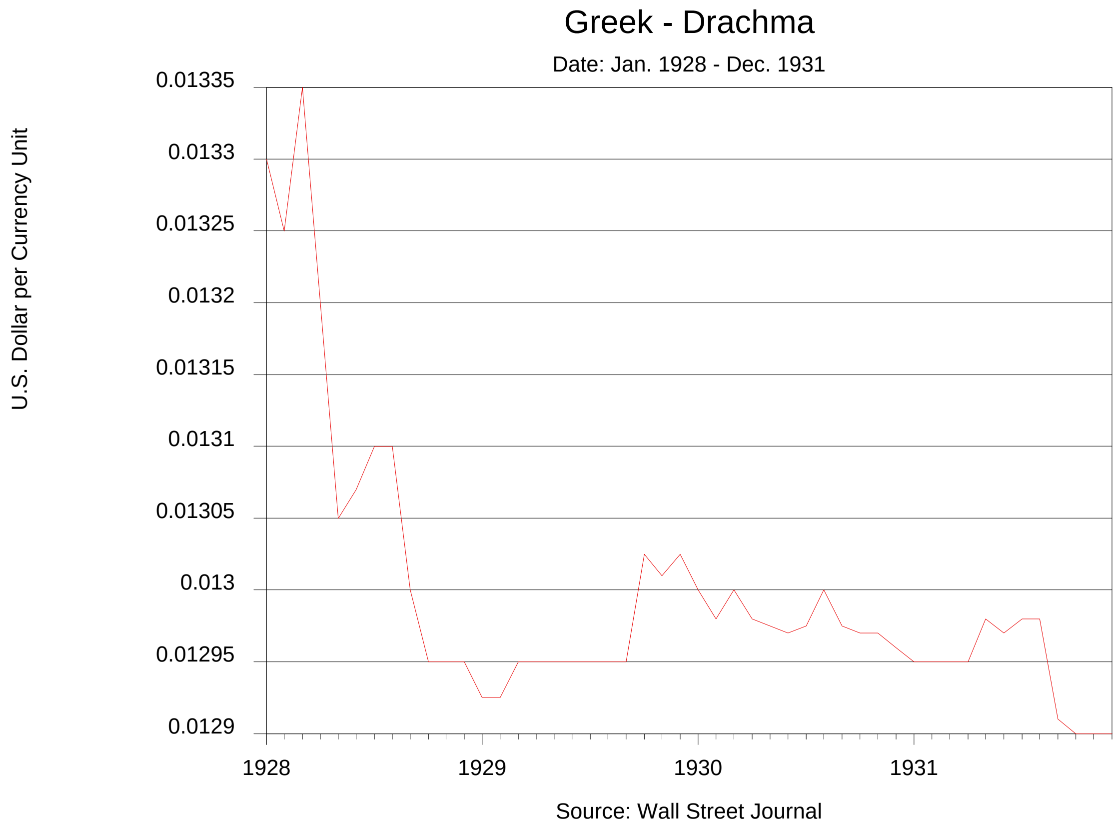
In Washington, the Senate investigation of Wall Street began to turn into a witch hunt. The President of the New York Stock Exchange, Richard Whitney was summoned to Washington by an urgent phone call. Apparently a telegram from a close friend of the President's was received in which it was alleged that a "billion-dollar bear raid" had

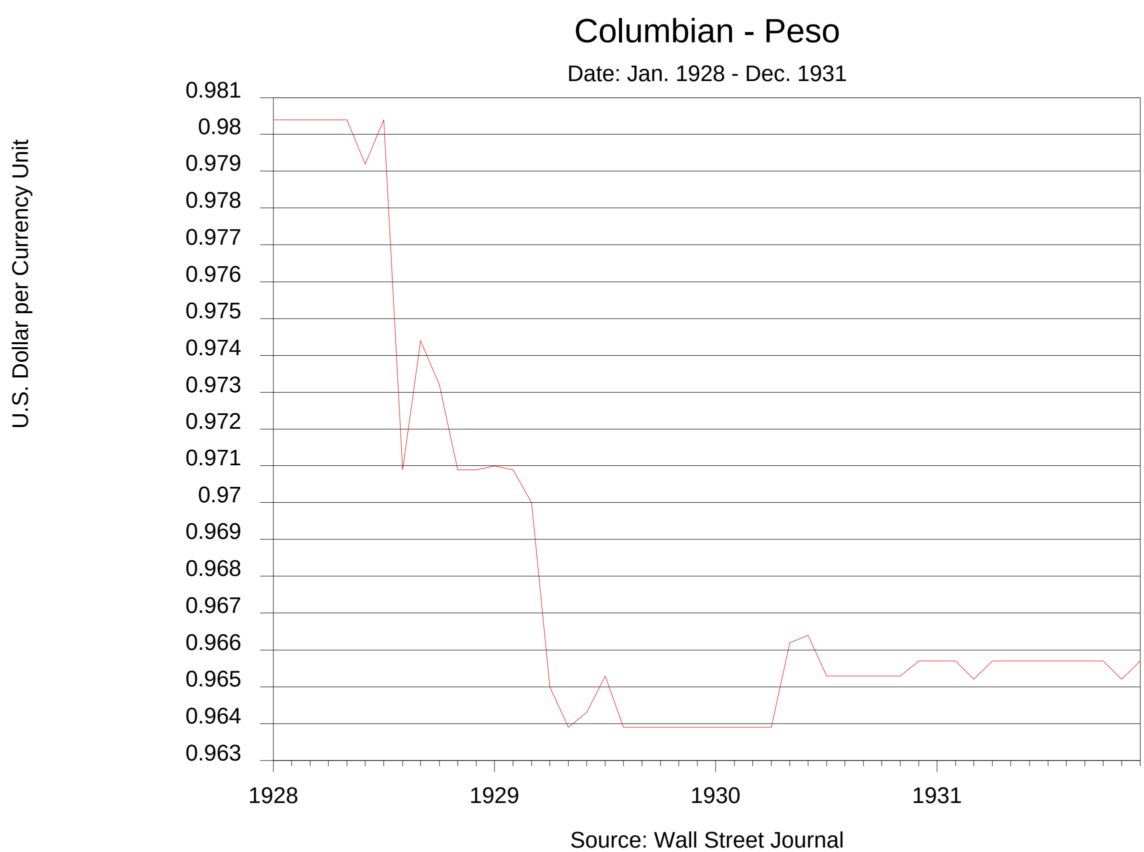


Chinese - Tael
Date: Jan. 1928 - Dec. 1931
U.S. Dollar per Currency Unit
0.7
0.65
0.6
0.55
0.5
0.45
0.4
0.35
0.3
0.25
1928
1929
1930
1931
Source: Wall Street Journal



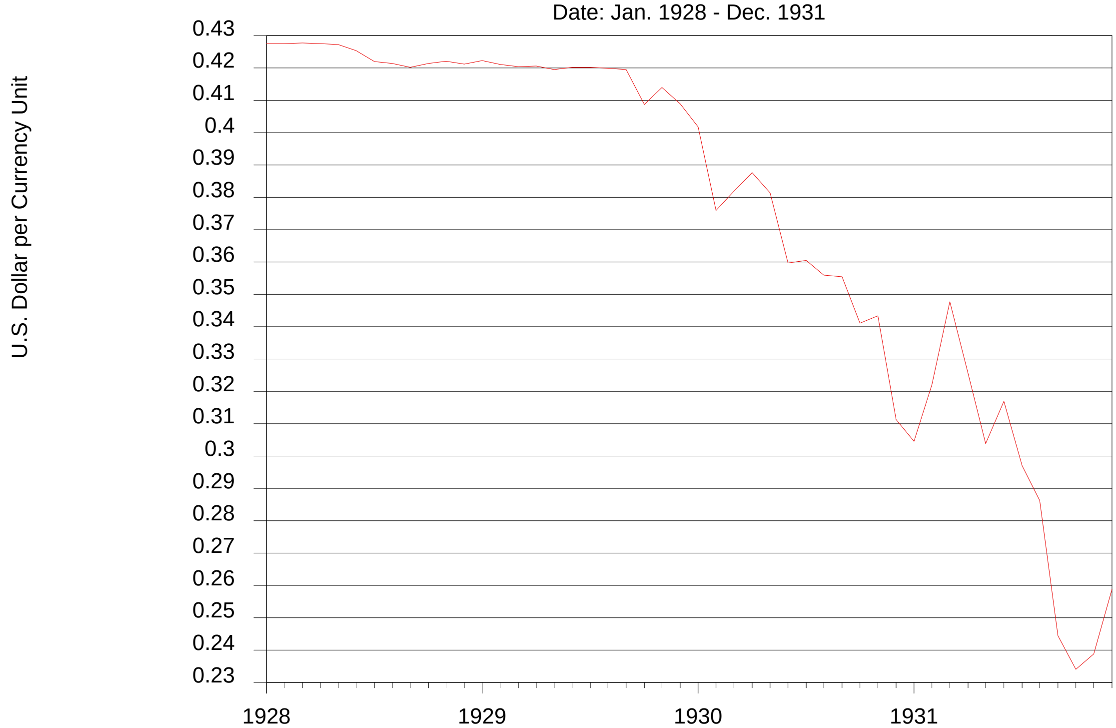
Hong Kong - Dollar
Date: Jan. 1928 - Dec. 1931
U.S. Dollar per Currency Unit
0.54
0.52
0.5
0.48
0.46
0.44
0.42
0.4
0.38
0.36
0.34
0.32
0.3
0.28
0.26
0.24
0.22
1928
1929
1930
1931
Source: Wall Street Journal


Greek - Drachma
Date: Jan. 1928 - Dec. 1931
U.S. Dollar per Currency Unit
0.01335
0.0133
0.01325
0.0132
0.01315
0.0131
0.01305
0.013
0.01295
0.0129
1928
1929
1930
1931
Source: Wall Street Journal


Columbian - Peso
Date: Jan. 1928 - Dec. 1931
U.S. Dollar per Currency Unit
0.981
0.98
0.979
0.978
0.977
0.976
0.975
0.974
0.973
0.972
0.971
0.97
0.969
0.968
0.967
0.966
0.965
0.964
0.963
1928
1929
1930
1931
Source: Wall Street Journal

Argentine - Peso

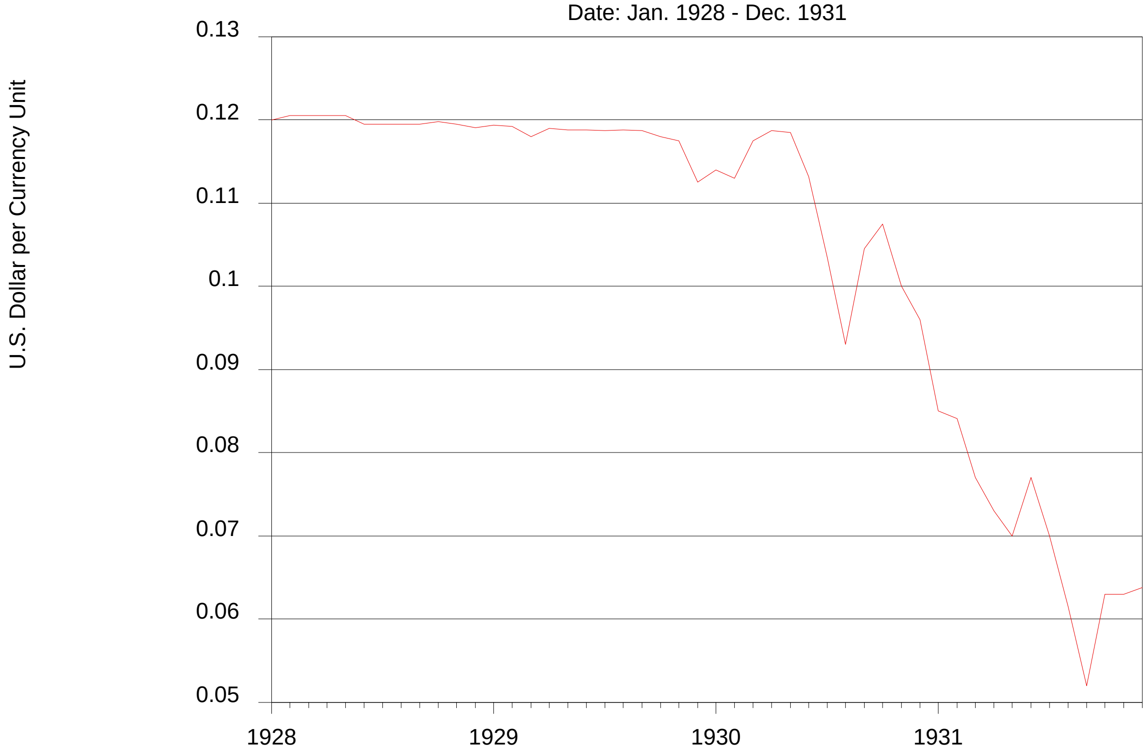
Date: Jan. 1928 - Dec. 1931



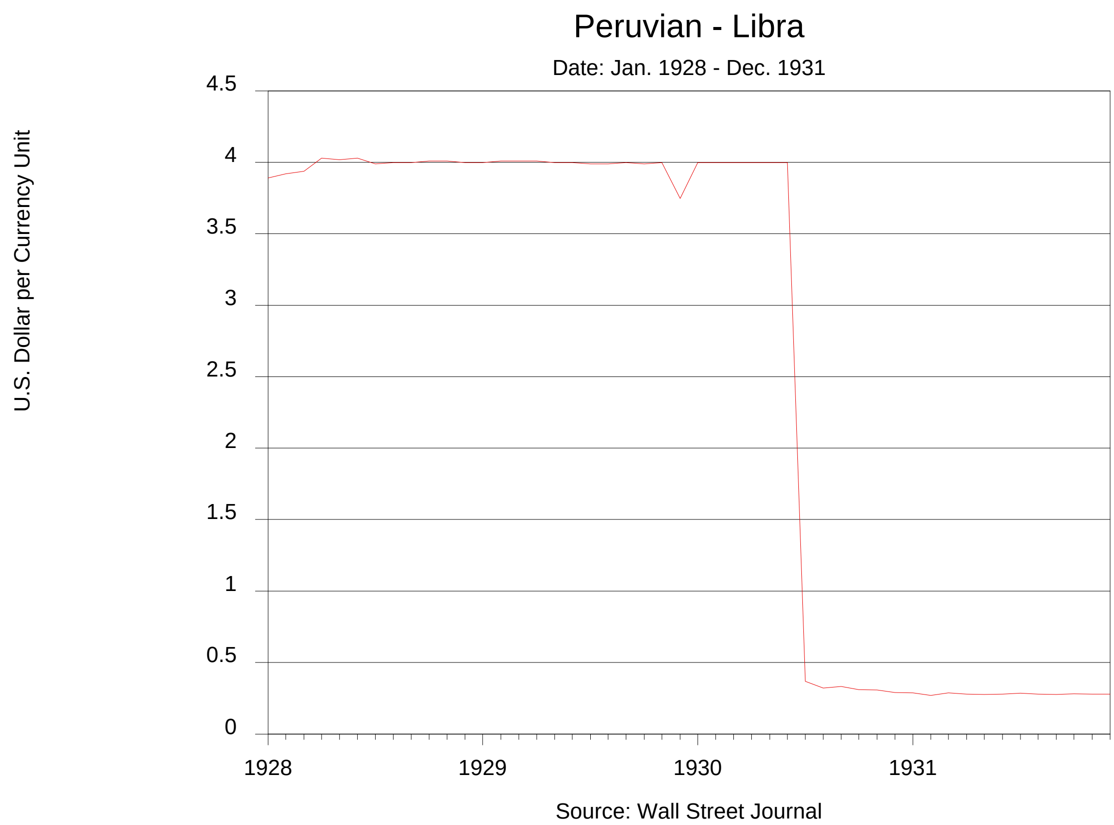
Source: Wall Street Journal

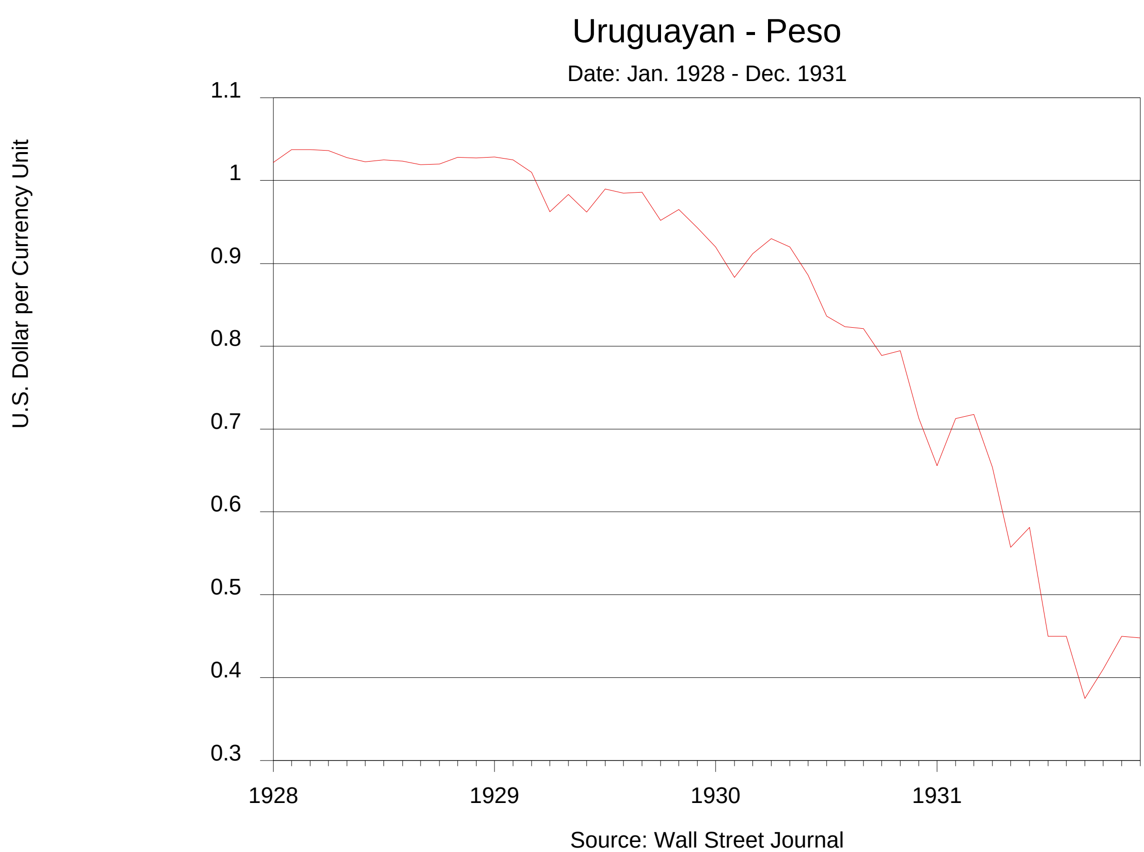
Brazilian - Mil Reis

Date: Jan. 1928 - Dec. 1931



Source: Wall Street Journal


Peruvian - Libra
Date: Jan. 1928 - Dec. 1931
U.S. Dollar per Currency Unit
4.5
4
3.5
3
2.5
2
1.5
1
0.5
0
1928
1929
1930
1931
Source: Wall Street Journal


Uruguayan - Peso
Date: Jan. 1928 - Dec. 1931
U.S. Dollar per Currency Unit
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
1928
1929
1930
1931
Source: Wall Street Journal

been at work in the market. Senator Walcot asked Mr. Whitney to prepare a complete list of names of those who had sold short positions in the market.

Whitney faced what was reported as a somewhat hostile Committee. Time magazine reported that Claude R. Branch, the special attorney for the Committee was very zealous and "irritating." Senator Norbeck was noted to be very "impatient." Senator Glass was his usual self, "sarcastic," and Senator Smith Wildman Brookhard was very "belligerent."

They taunted and badgered Whitney as if he was a criminal. Whitney again denied that professional bears had anything to do with the decline in market values. Whitney pointed out that short interest had declined by 230,000 shares the week before yet the market still fell to a new record low. Whitney pointed out that a similar condition had existed the previous October when prices tumbled. In response to their inquisition of bear-raiders, Whitney replied: "Our investigations have disclosed no bear raids!"

The Committee managed to extract from him a statement in which he agreed that perhaps officials who had made bullish statements might have induced small investors into buying stocks which made Senator Glass' day. But when pressed as to why the market had then declined, Whitney replied: "Liquidation by frightened investors who are giving these United States of ours away."

The interrogation continued as if it were the Spanish inquisition.

Senator Couzens: It has come to my attention that a broker may use his customer's stock to depress the value of that stock.

Mr. Whitney: Senator Couzens, I deny that!

Senator Couzens: How do you detect it?

Mr. Whitney: Our men check the brokerage offices.

Senator Brookhart: Do you think the rules you are constantly citing are enforced or evaded?

Senator Blaine: Maybe he thinks they are enforced better than the Prohibition Law of the Federal Government.

Senator Brookhart: You brought this country to the greatest panic in history!

Mr. Whitney: We have brought this country, sir, to its standing in the world by speculation. You think you can affect the world by changing the rules of a stock exchange or board of trade?

Senator Brookhart: Yes, we can change them by abolishing the stock exchange and board of trade so far as speculation is concerned!

Mr. Whitney: And then the people of the United States will go to Canada and Europe to do those very things and pay their taxes there!

In reading over the dialogue of Mr. Whitney's interrogation, one begins to wonder whether or not he was before a committee of the Communist Party in Russia. Were these comments coming from elected officials in a so-called free society?

Before the Banking & Currency Committee, Mr. Whitney handed over the list of 24,000 names of those who had positions in the market. This was April 8, one day before the supposed "billion-dollar bear raid" had taken place. The Committee began to instantly sift through the list searching for the names of those who had shorted the markets. Many prominent and nationally well-known names were among the list. But Senator Walcot argued against the publication of any names.

During the later part of April, the market continued to tumble largely on the news of the Kreuger Scandal. It seems as though the King of the Swedish Match Co. had some cash flow problems back in 1931. He obtained some copper plates which were similar to that of Italian government bonds. He took the plates and ran off 42 bonds which each carried a face value of 500,000 pounds. He swapped the counterfeits with good bonds in the company's portfolio and proceeded to borrow against them. It was reported that when asked about the Italian bonds in the company's portfolio, he replied that relations between France and Italy were strained and that no mention should be made of his loan to the Italian government. This didn't seem out of line. If you recall, he had lent sizable amounts of money to both Germany and France in return for monopoly concessions for matches in these nations.

As May entered the arena there seemed to be no easing in the downtrend for equities. The Dow Jones Industrials fell almost continuously straight down, closing May on the low for the month. Yet volume declined considerably dropping to 23.1 million shares. Only Six days during the entire month managed to trade more than a million shares. Most days averaged between 600,000 and 700,000 shares. At the close of May, the industrials stood at 44.74 down virtually 50% since the March high. Bonds had also continued to decline and dropped down to close on the low for the month as well at 66.30 which was substantially below the March high of 82.30. The railroads had closed May at 14.30, off nearly 60% from the March high of 38.65. The utilities had also declined sharply falling from their March high of 35.92 and closing May at 17.74, off virtually by 50%.

Many of the same issues which had plagued and influenced the market merely intensified. The Federal Government had entered a deficit in its budget and the pending tax bill seemed to be going nowhere. Meanwhile, spending increased as Hoover sought to create jobs for the unemployed. It was the billions of dollars being spent in recovery attempts that scared Europe more than anything. Gold outflows began to increase. Many called for the end of the United States. Everyone had been used to budget surpluses and trade surpluses as well. The thought that deficits were taking place gave some hope that the increased spending would stimulate the economy while others saw a trend which pointed to the collapse of the nation through deficits.

The dividend news continued to get worse. The New York Central Railroad had omitted its dividend for the first time in 62 years. G.M. reduced its dividend sparking further pessimism.

On the 1st of May, a strike had been declared by 32 building trade unions in New York. On the 11th of May President Hoover vetoed the bill to amend the Smoot-Hawley Tariff Act of 1930 which sought to restrict the powers of the President under the flexible tariff provisions.

On the 16th of May, U.S. Steel Corporation again cut wages by 15%. Most commodities continued to decline and zinc fell to its lowest point on May 18, reaching 2.275 cents.

On May 24, 1932, the Kreuger & Toll Company, which was the parent company of the interests of Ivar Kreuger, filed for bankruptcy.

On May 25, 1932 Britain finally signed an agreement under which it would resume payment on its debt owed to the United States which had been postponed under the moratorium.

Sugar reached bottom for the year at .057 cents. Many had thought that sugar would hold the 1 cent level. But sure enough, the impossible had happened. Sugar fell below the 1 cent level that day.

In Washington, the witch hunt continued. During April's assault upon Mr. Whitney, Senator Norbeck lost his cool and shouted at Whitney "You're hopeless!" when Whitney refused to acknowledge that shorts had forced the market lower.

The Special Attorney was replaced by William A. Gray but he was not much better. Yet the shocking event came when the Committee began to publish the list of 350 short players who had taken part in the stock market. It was unbelievable. The entire affair made a mockery of this free system.

The list naturally included many well-known names. Among them were the following:

Percy Rockefeller
Matthew Brush
Bernard E. ("Sell'em Ben") Smith
Arthur Cutten (Famed bull in Wheat)
B.C. Neidecker (Head Travelers Bank)
Raymond Patenotre (French Deputy)
Marquis de San Miguel
Zalmon Gilbert Simmons (Simmons Beds)

The Senate began to drag them all in to rake them over the coals so to speak. Percy Rockefeller was taunted without mercy by Counsel Gray looking, as always, to make a name to himself over someone else's dead and battered body. Gray conjured up every deceitful scenario he could imagine accusing Percy Rockefeller of slanderous things including sitting on bank boards and having knowledge of distress sales in advance. But evidence never supported such wild accusations for Rockefeller never had a lot of short positions at any time.

Gray: There has been rumor that you broke with President Hoover and became a short seller to depress prices. Is that rumor correct?
Rockefeller: Now what object would I have in doing a thing like that?
Gray: Perhaps to hurt Mr. Hoover's chance for re-election.
Rockefeller: Oh no! I am a Republican.
Gray: Senator Walsh just said he believes international bankers have smashed the market to force the United States into a position where we must cancel War Debts. Do you think he is correct in that belief ?
Rockefeller: All those stories are ridiculous it seems to me.

Rockefeller at his peak had 12,000 shares short but had not been short for some time. They pressed him as to how much he made from the stock market. "My own losses have been terrible," said Rockefeller. Senator Couzens appeared as if he didn't want to accept the fact that Rockefeller hadn't made any money. "How much is terrible?" Couzens asked. "A good many million!" replied Rockefeller.

Senator Copeland of New York had just walked in to listen to what was going on. He stayed but for only a short while and found the entire proceedings very disdainful. A reporter for Time magazine overheard his comment which was "They are conducting this like a police court!" Indeed, the hearings were in search of capitalists who could be hung out in public and all wrongs thereby placed upon a few in no way different than the vengeful days of Stalin and Lenin.

The Senators continued probing and harassing their victims, hell bent on laying the blame for the depression upon the whole lot of speculators who had dared to sell the stock market short. Evidence which had been presented by the New York Stock Exchange which unquestionably failed to produce a massive bear pool was of no consequence. The Senators continued without probable cause and without restraint. If any such investigation should have been launched, it should have been conducted into the mismanaging of affairs on the part of government focusing not merely on the Anti-Trust laws, but on the dubious tactics of floating unsecured sovereign debt.

Thomas E. Bragg, a well-known stock market player, was next in line to be pulled apart by the inquisition. Bragg admitted to having at times as much as 50,000 shares on the short side, but on the average his position was 12,000 to 15,000 shares. Although Bragg was one of the largest short players uncovered by the blood-thirsty Senators, 50,000 shares in the midst of 5 million share days was still like spitting in the ocean and expecting to alter the tide.

Bragg denied taking part in any bear-raid or bear-pool but admitted that he had taken part in a bull-pool which totaled $32 million in Anaconda Copper prior to the break in 1929. The questioning thereby turned toward his bullish days when nothing of massive bear-raider could be hung around his neck.

Gray: How much did you put in?
Bragg: About $500,000. I think Ben Smith put in a half million and Mr. Rockefeller $120,000.
Gray: Go ahead and name the others.

Tom Bragg went on to name John Raskob, Chairman of the Democratic National Committee, Willy Durant, Frederic J. Fisher and others.

Senator Couzens: How did the operation come out?
Bragg: I lost $400,000, others may have lost more.
Senator Couzens: What representations were held out to get people to join?
Bragg: Possible profit.
Gray: Wasn't that pool formed because of the ability of this group to manipulate the market?
Bragg: I don't think there was any manipulation.
Gray: Oh be a little frank with this committee. You just didn't take $32 million into the market and sit down and wait. Tell us some truth!
Senator Glass: I protest against bully ragging the witness that way.

The Senator's bear-hunt continued, calling John Jacob Raskob, Chairman of the National Democratic Committee, to the stand. Senator Norbeck was dying to hang a few Democrats with the Presidential elections coming due in the fall. Senator Glass was a Democrat. He demanded of Counsel Gray:

Senator Glass: "Are you calling any prominent Republicans?"
Senator Norbeck jumped in: "If Senator Glass will name them we will gladly call them."
Senator Glass began to shout: "It isn't my place to call them!"
Gray broke in and said: "If I'm directed to proceed no further with Mr. Raskob because he is chairman of the Democratic National Committee, I'll go not further."

Senator Glass immediately backed off murmuring: "Oh no, I was just, ah, wondering, ah..."

Raskob had brought with him itemized accounts of his stock dealings. After some badgering, as seemed appropriate for this posse, it became clear that Roskob, famed bull was indeed a bull to the very end. Raskob had lost so much that they asked if it was indeed all his money to begin with? "All my own!" he sadly replied.

But Time magazine reported Raskob's closing words to the distinguished Committee,

"I have always been long of stocks. ... Nevertheless, I think that short-selling is a perfectly legitimate thing, though it may have been terribly abused. And I believe that if the American people had been more familiar with it ... during the boom our conditions would not have become so bad. Short-selling has its place and a very good place too."

The bear-hunt continued despite the emotional parting words of Raskob. Gray summoned William Fox, once the proud owner of Fox Films. William Fox, upon his arrival in Washington, became ill. Fox's doctor claimed he had an attack and stated that he believed Fox had diabetes. But Gray, depraved, perverse and suspicious a person as he was, held true to his character. Gray simply wouldn't believe him. Gray hired a physician to check Mr. Fox's condition with orders to report directly to Mr. Gray. When that doctor also reported that William Fox was seriously ill, Gray still refused to believe it and then hired a third doctor ordering him to check the condition of this Mr. Fox. All three doctors agreed that Fox was indeed very ill.

Gray still scoffed at the situation and proceeded with his case against Fox without his being present to raise his own defense. Gray charged Fox had "wrecked" his former companies through stock market activity. He revealed countless details of his stock transactions right down to how much his daughter had owned. But all the evidence which Gray had compiled did not show Fox as a bear-raider but as a dead and battered bull. Gray was still not satisfied. Gray uncovered what he called a fraud. Gray accused Fox on one transaction out of several thousands of willful fraud again while Fox was still confined to his bed. Fox had dealt in the name of his company as well as in his personal name from time to time. Gray charged that on one transaction Fox had deducted a loss incurred in the market which he claimed the company had originally paid for.

The Committee naturally flaunted this in the face of the press and then announced that they were turning Mr. Fox over to the IRS. Mr. Gray took much pleasure in announcing publicly that "the recovery of evaded income tax will offset the expense (of the proceedings) 100 times," as they voted to continue the investigation despite having failed to turn up the illustrious bear who had supposedly destroyed the market and perpetrated the Depression upon the entire world.

Thomas Jefferson once said "Sometimes it is said that man cannot be trusted with the government of himself. Can he then be trusted with the government of others? Or have we found angels in the forms of kings to govern him? Let history answer this question." Indeed history answered Jefferson. If man supposedly cannot be trusted with governing his own actions, for which reason the Senate instituted these proceedings, the men who sat at the table of that

Committee were of no different stock or breed. They were no better than those who they sought to judge and in the process they ignored those enlightened dreams which took form in the Bill of Rights.

William A. Gray and the rest of the Committee lowered those standards of government to the very gutter. Gray, with his full wavy head of hair and his beady eyes which hid behind a pair of wire rim glasses, tried to set himself up as God to rule and judge others. No one ever asked if he had owned a single share of stock. Perhaps he did; perhaps not. But he attempted to turn the only motive for buying stocks into the most seedy act worthy of the highest criminal penalty. All the freedoms which many an American had died for in every war since the Revolution were ignored by an enraged government bent on revenge. What of the Constitution? No words could protect the public from these self imposed tyrants.

Thomas Jefferson also wrote: "Still one thing more, fellow citizens - a wise and frugal government, which shall restrain man from injuring one another which shall leave them otherwise free to regulate their own pursuits of industry and improvement and shall not take from the mouth of labor the bread it has earned. This is the sum of good government, and this is necessary to close the circle of our felicities."

It was with this rage toward the stock market that a new philosophy began to take hold in the United States and the balance of the free world. Although governments would stop short of full blown communism, laws progressively took a direction toward a socialistic state. The graduated income tax would eventually rise to 90%. The government used its taxing powers to get at the rich and upper classes who had participated in the stock market. Since one could not constitutionally take away their rights to invest government sought in the decades that followed to raise taxes to such heights that not much income would be left for speculation. The spirit of individualism was dealt a severe and shocking blow. The actions taken by the Senate could be taken just as easily and most assuredly again given an economic convulsion of this magnitude.

The infamous Mr. Gray was far from satisfied. His next victim in his Roman style of public spectacle was called in; Charles E. Mitchell, Chairman of the Board of National City Bank. Gray probed and badgered Mitchell whose bank had ill-advised many clients to buy Anaconda Copper. The bank had sold 300,000 shares at $125 a share which by now were trading at mere $4. Mitchell denied Gray's accusations that perhaps the bank used high pressure tactics to sell the stock to an unsuspecting public as if Mitchell or anyone could have foresaw the depths to which the market would have fallen two years in advance. Given the atmosphere at the time, the accusation was completely ridiculous. It didn't take high pressure salesman to sell stock back in the summer of 1929.

Gray's accusations and interrogations were reaching much too high a level of zeal. Most of the Senators didn't even show up the next day to listen to Gray's further inquisitions into the Anaconda Copper dealings. Only Senators Norbeck and Townsend appeared. Gray summoned the Chairman of the Board of Anaconda Copper himself, John D. Ryan. The interrogation continued as accusations from Gray grew more bold. The President of Anaconda, Cornelius F. Kelly, became so annoyed that he jumped up and yelled at the Committee, "Mr. Gray is trying to ride the witness for the benefit of the gallery!" Senator Norbeck threatened to put Kelly on the stand if he didn't shut up. Could this really be the land of liberty or was it a nightmare? Gray's accusations were totally unfounded. He would say anything and do anything to try to get somebody to admit to anything at all. It was hardly as if Anaconda's decline in the market was an isolated incident. Then perhaps one might be able to accuse manipulation. But Anaconda was but one issue in a tidal pool of declining stocks on every exchange throughout the world.

Gray's accusations were, of course, carried by the press. Whether they were well founded or not, they made great gossip to slander and destroy those who had been forced to submit to Gray's perverse rantings. The damage to reputations of many who had been placed on the rack was beyond repair. As a result of the hearings, William Fox had numerous law suits filed against him without evidence but solely upon the allegations made by Gray. Charles Mitchell, a long-time personal target of Senator Glass, was forced to resign as head of the National City Bank. Other resignations were also caused by Gray. The head of Chase Manhattan Bank, Albert Wiggin, was also forced to resign. In each case, no one had been a bear-raider but instead they were chastised for being bulls. Most had lost money but that didn't matter.

Herbert Hoover wrote in his memoirs that the inquisition was at his direction. He wrote..."I urged that the committee launch an investigation of practices of the Exchange, with a view to legislation and I gave them much information to start on. I was extremely loath to take this step as we had enough burdens to carry without all discouraging filth such exposure entailed...There was some doubt as to the constitutionality of the Federal control of the stock exchange...But when a representative government becomes angered, it will burn down the barn to get a rat out of it."

Although Hoover was defeated by Roosevelt in November 1932, credit for the establishment of the S.E.C. does not solely lie with Roosevelt. The birth of the S.E.C. actually originated with the witch hunts of 1932.

The S.E.C. still holds broad powers over the exchanges and indeed many laws which it enforces such as disclosure and financial statements from public companies have been a great service in preventing some of the dishonesty that took place in bogus stock offerings and outright forgery of stock. But to burn down the barn to get to one rat is not the proper action of a free society. One does not permit strip searches of people walking down the street in order to catch a suspected shoplifter. Protection against such activity is at least our supposed constitutional right but when government becomes enraged, you can't count on them to come to your aid.

It is hard to say whether or not these proceedings had a lot to do with the drastic decline in volume on the stock exchanges. All that can be surmised is that there was perhaps some hesitancy to participate since the Senate appeared to have the power to call in anyone who had bought or sold a share at some point in time.

One thing was certain; the short interests had dwindled significantly. At the end of May, the market had dropped to a new record low, well under those established during previous panics. As the market fell to 46.71 on May 28, volume was a mere 675,000 shares. But on Monday, May 31, 1932, the market fell to 44.72 and volume jumped back up to 1.4 million shares for the day. This was still a far cry from the 10 million share days of November 1929 or the 5 million share days during the recovery of the first quarter in 1930.

May had also brought the collapse of the Japanese price supports for the silk market. Seven thousand tons of silk had overhung the National Raw Silk Exchange. The Japanese had set up a price support system similar to the U.S. Farm Board program, which bought up excess supplies at fixed prices. Japan finally gave up the program and sold the entire lot of silk to E. Gerli & Co. of Manhattan for $16 million. In return, Japan agreed that they would in the future attempt to support silk by encouraging lower production rather than buying up excess production at fixed inflated prices. The price of silk on the New York Exchange was $178 a bale and the deal was struck at $150. Most silk dealers felt rather bullish once this supply was out of the way. E. Gerli & Co. proposed to sell the silk through its distribution network rather than dumping it on the exchange itself.

The steel industry was in shambles, turning in disastrous losses. The President of Bethlehem Steel, Eugene Gifford Grace, made a public statement about the situation in early May. "I cannot understand the inactivity of our labour friends who have not only failed to demand new laws protecting American manufacturers, but have not insisted upon the enforcement of existing laws." European steel manufacturers were dumping steel in U.S. markets for a loss, driving prices down even further. Although Bethlehem did pay a regular $1.75 dividend on its preferred stock, bringing the yield to 20%, the common share dividend was omitted and most assumed that by the end of the next quarter, Bethlehem would most likely omit even its preferred dividend.

U.S. Steel announced that another wage cut would be imposed from the President on down. Wages had already been cut 10% to 15% in August 1931, then 10% in October and the new cut which was proposed in May 1932 was an additional 15%. This brought the average wage down 23.5%.

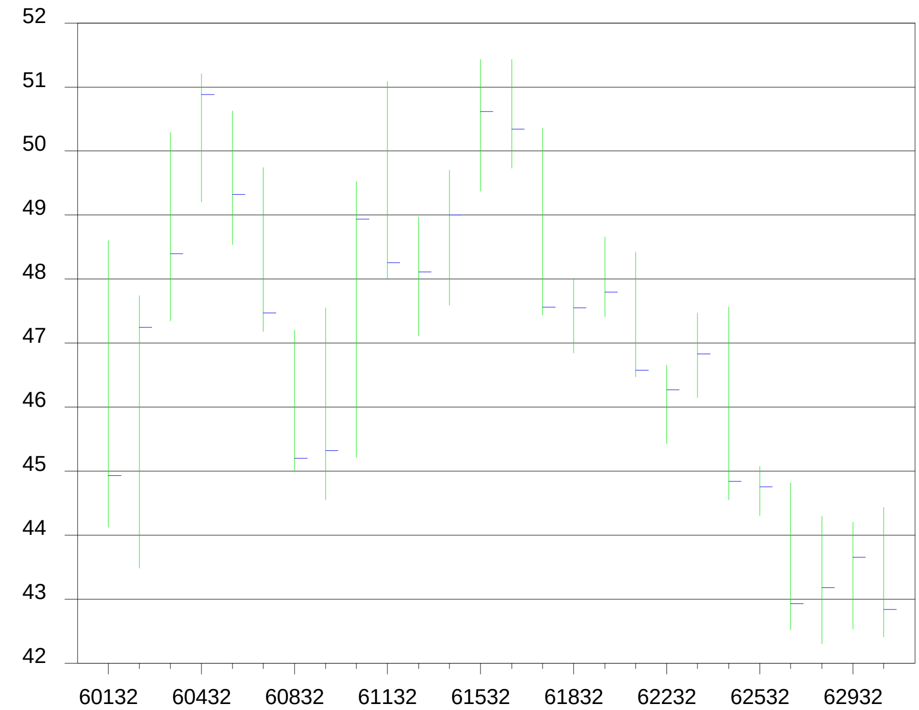
May brought troubles in other metals markets as well. The tin crisis of 1932 came about when the international Tin Cartel was forced to announce that production would be stopped entirely during June and July. The Cartel was comprised of Malay States, Bolivia, Dutch East Indies and Nigeria. They further announced that when production resumed during August, they intended to gear back up to only 40% of capacity.

Another statistical survey was released during May of 1932. This was a stock survey conducted by R.G. Dun & Co., which later would merge with Bradstreet. The survey centered its focus upon the ownership of securities in 1932. Dun found that over the past two years, the number of actual stockholders in the 346 company survey increased by 41.5% which stood at 5,848,000. The number of preferred stockholders had increased by only .3%. In a survey of bonds, it was found that ownership had actually declined by 3.8%.

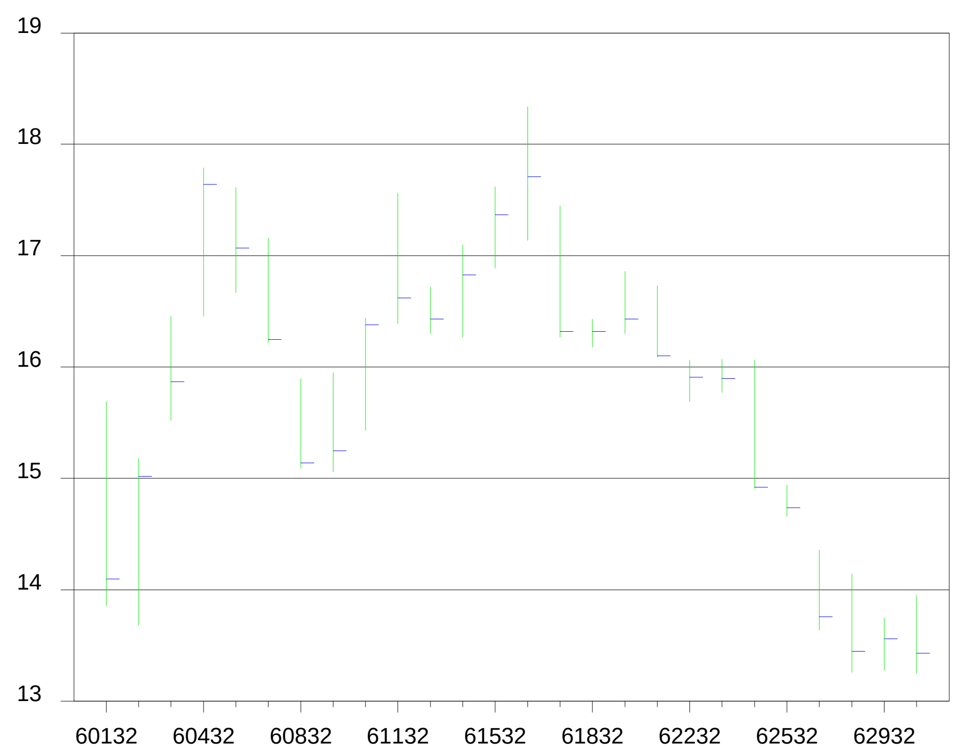
Dun's survey turned up one interesting point. While stocks were purchased on margin, traditionally the stock remained in the name of the brokerage house. This survey at the very least demonstrated that more people were buying stocks outright rather than on margin.

It also suggested that small investors' inequities still existed and, in fact, perhaps it was the big players and the professionals who were now out of the entire affair.

Dow Jones Industrials Daily June 1932



Dow Jones Railroads Daily June 1932



As June entered the scene, the Senate hearing continued to hit the press detailing Gray's nasty disposition. He come off as the type of guy who would turn in his own mother if he thought it would gain him the Presidency.

The Dow Jones Industrials continued to fall. But during the first few days of June, the market rallied from 44 back to 51. Volume picked up significantly, reaching 1.8 million shares for three days in a row. The second week the market again fell back to 44.45. Volume averaged 900,000 shares per day.

The third week in June saw the market rally back reaching a new high for the month testing 51.43. Volume declined that week to 568,000 on Monday, moving up to 756,000 on Tuesday. On Wednesday, the day of the high for the month volume reached 1.1 million shares. Distinctly, volume began to rise on up days, more so than on down days.

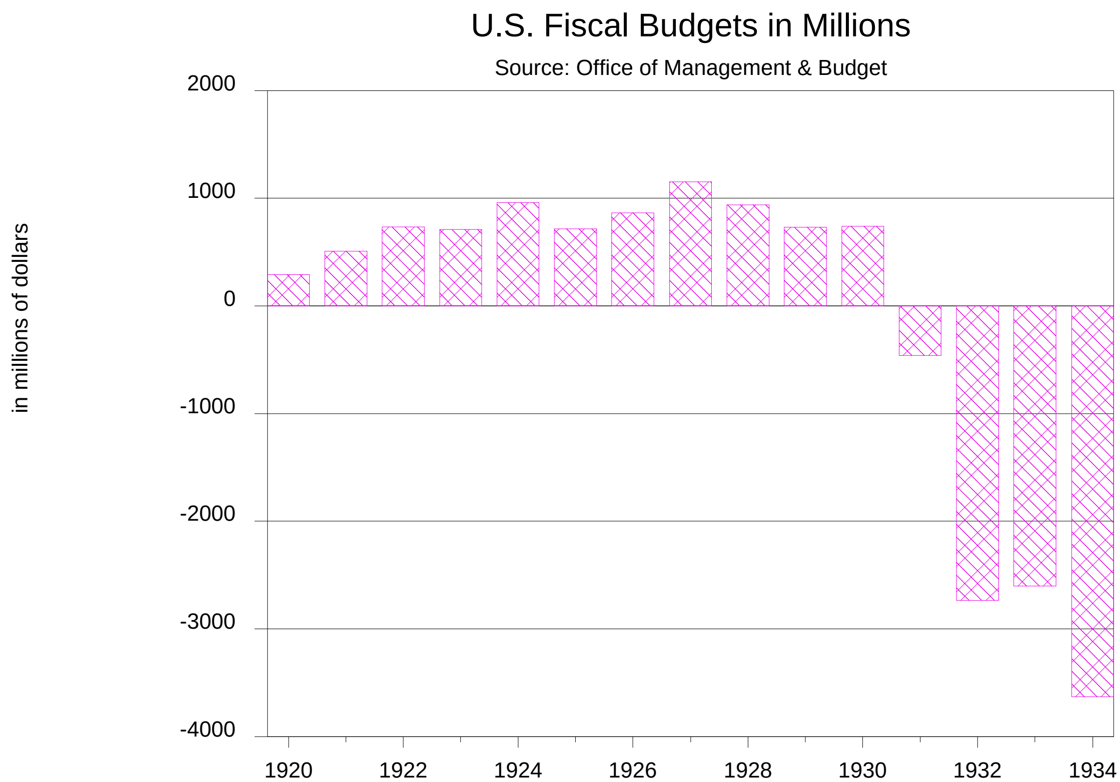
During the fourth week in June, the market fell back to 44.31 and volume declined to as low as 310,000 to a maximum of 773,000 shares on any given day that week. As June came into the final week of the 27th, volume remained at the 650,000 average level as the market dropped to new lows, testing 42.31 on Tuesday, June 28. June closed the month at 42.84.

What had prompted the early June rise was news that Congress had killed the Soldier's Bonus Bill. Oddly enough, sentiment began to invert the relationship of government actions to the market. At first, government programs to increase spending were looked upon by the market as being bullish. Fresh capital would enter the economy, people would buy goods, of course; thus earnings would rise and along with them stocks. But as we approach the low in 1932, the fundamentalists were looking at the events completely in the opposite direction.

The Federal budgets had turned into deficits. Now all of a sudden, raising taxes and killing spending were deemed to be bullish for the market. Why the sudden change? It was apparent that Hoover had established many various programs to institute spending which would in turn create jobs. But as billions were spent, no appreciable effect could be witnessed by the market. Prices merely continued to decline. There is no logic for the sudden change in fundamental analysis. At the peak there was no federal deficit. But deficits began only to occur in response to the depression. So now was the bottom in the market caused by the deficit which had just begun to manifest itself? It seems highly unlikely that this would be a reason why the market should decline or fall at this point in the game. Nonetheless, Congress' swift thrust to kill the Soldier's Bonus Bill was deemed to be the most bullish aspect in the market during early June.

However, the stock market enthusiast quickly turned bearish on news that wheat and cotton began to break. Some claimed that the market dropped because President Hoover and Vice President Curtis were renominated during the June Republican convention for the upcoming elections in November.

On June 3, 1932, there was another bullish piece of news. The banks had remained at a distance from the collapsing bond market. But the banks had publicly stated that a Federal balanced budget would in their opinions send cash diving back into the financial arena. They announced that they were forming the American Securities in-



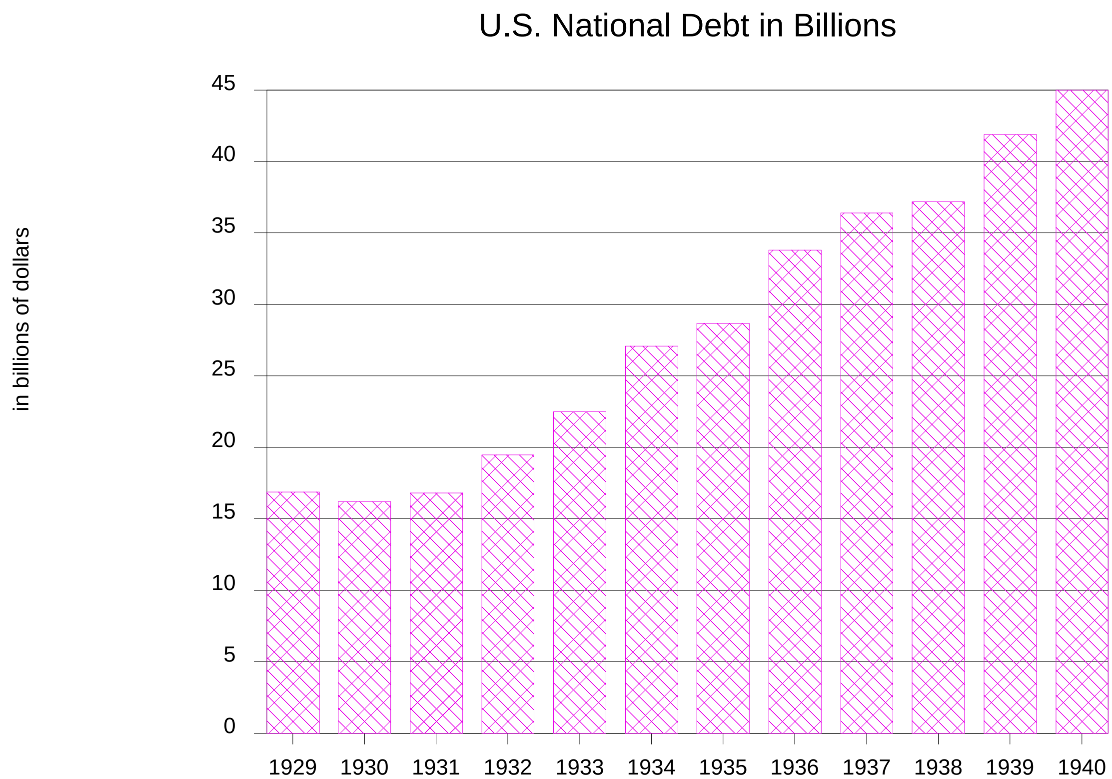
vesting Corp. in which 20 Manhattan banks proposed to dump in $100 million. The banks announced that this was no pool to stabilize prices and then fold up quietly, slipping out of sight and out of mind. This, they claimed, would be an ongoing company which would buy bonds to make a profit.

Upon this news, many people began to feel that the market had bottomed. Indeed, Time magazine stated on June 13: "While A.S.I.C. was expected to concentrate on first-class bonds, all values rebounded last week on the psychology that at last firm bottom had been found." The venture was once again put together by J.P. Morgan & Co., and Mr. Lamont took up the position of President while George Whitney assumed the role of Chairman.

In Europe, concerns of the deficit in the United States sparked heavy withdrawals of gold on the part of Europe. Within the first ten days in June, $152 million in gold bullion had been withdrawn. Europe scrambled for gold even though most of her nations had abandoned the gold standard.

On June 6, 1932, President Hoover signed into law the new Revenue Act which increased income taxes and corporation taxes along with a variety of excise taxes. The market responded favorably, believing that higher taxes would wipe out the deficit.

On June 10, 1932, cotton fell sharply to five cents a pound. This made the headlines as it broke the previous record low of 5 5/16 cents which had been established on the cash markets back on November 12, 1898. The very next day, the July cotton on the futures exchange fell to 4.91 cents, breaking its previous record low on futures established on November 4, 1898 at 4.94 cents.



On June 14, 1932, France withdrew her last gold which was held on deposit at the New York Federal Reserve. France was seemingly discontent to leave even a fraction of a gram on U.S. soil.

But the market began to turn lower as on June 15, the House passed the Patman Bill which called for the immediate cash payment of the Soldier's Bonus. This coupled with a large U.S. Treasury offering of $750 million in securities, dampened the spirits and hopes for a balanced budget.

On June 16 in Switzerland, a group of seven nations met and finally agreed at Lauzanne to reduce the German reparations payments from $64 billion to a more realistic figure of $712 million.

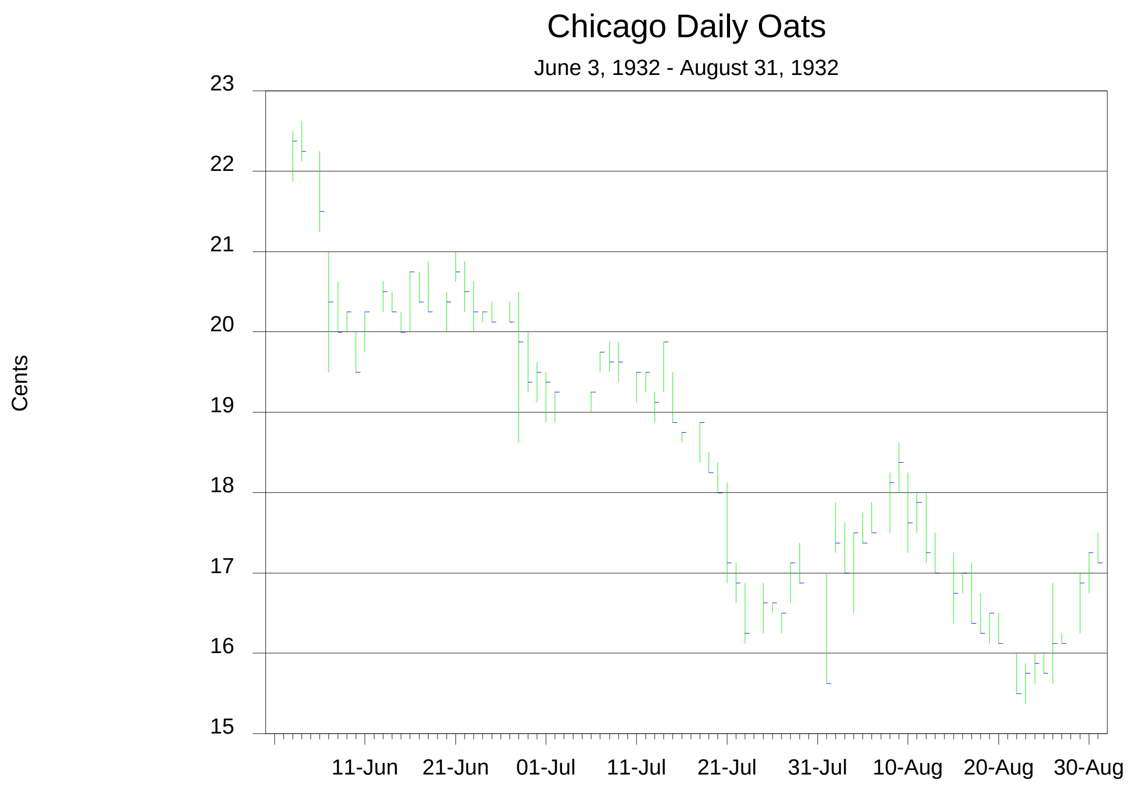
But on June 17, 1932, the Soldier's issue came to a vote in the Senate. The Senate voted against the bill and it died on the floor that day.

On June 22, 1932, Hoover proposed a general disarmament conference to be held in Geneva. Hoover called for a one-third reduction in all land, sea and air forces. He hoped that this measure would help not only to reduce the potential for further war but to reduce the arms race in Europe.

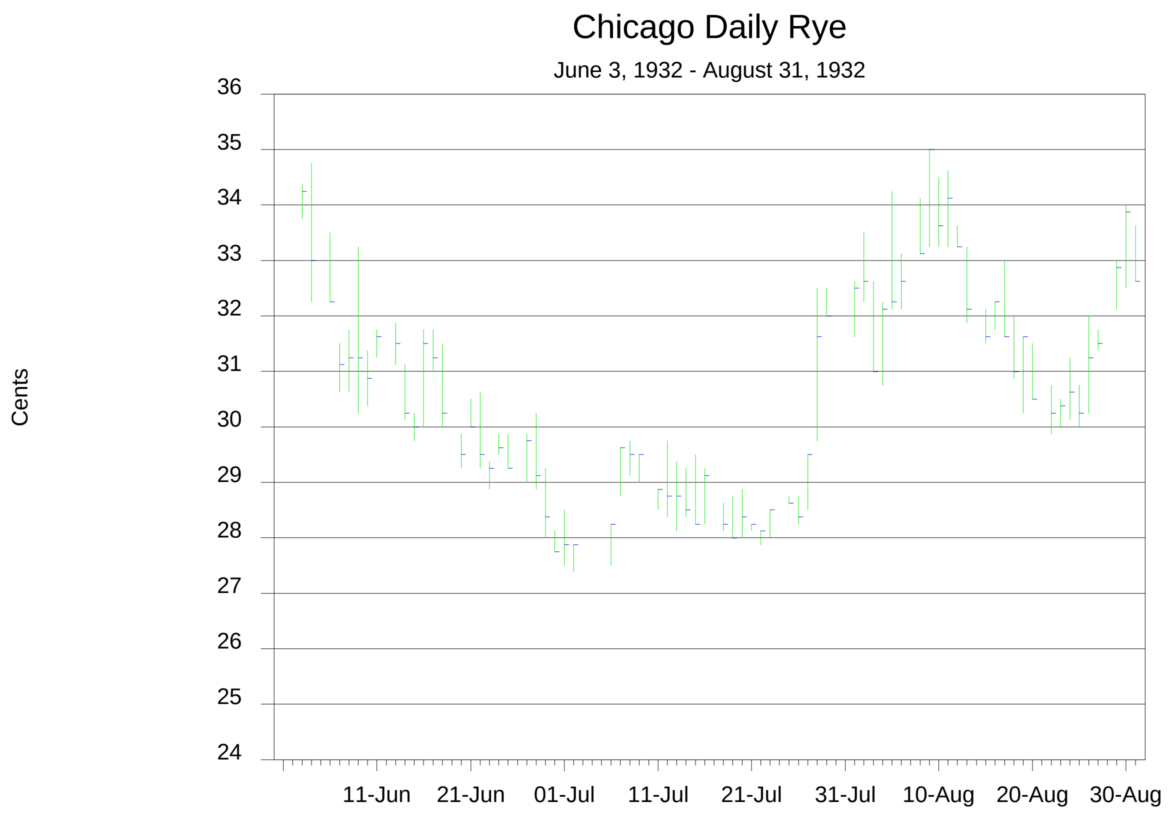
On June 24, 1932, the Federal Reserve lowered the discount rate from 3% to 2.5%. But the market barely even noticed as stocks continued their decline into July.

On June 28, 1932, rubber fell and made its final low for the depression and the bear market. It tested the 2.53 cent level.

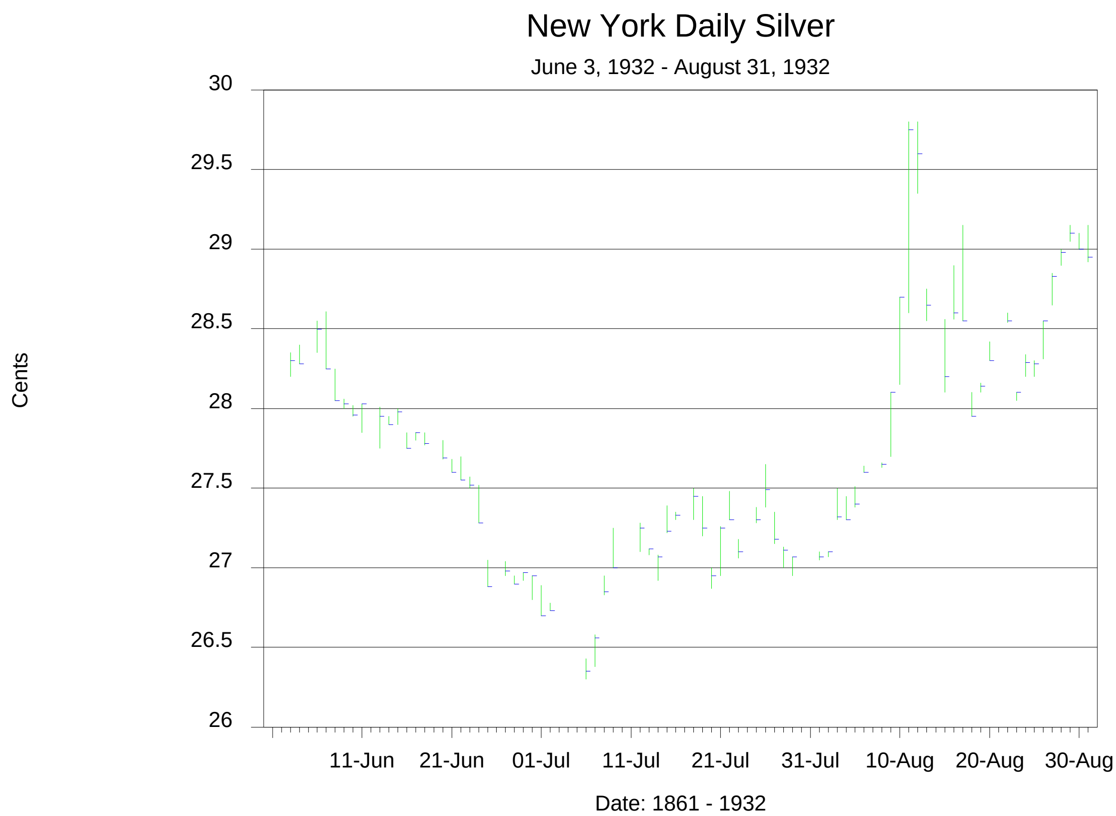
On June 30, 1932, the Bank of England cut its discount rate from 2.5% to 2% which

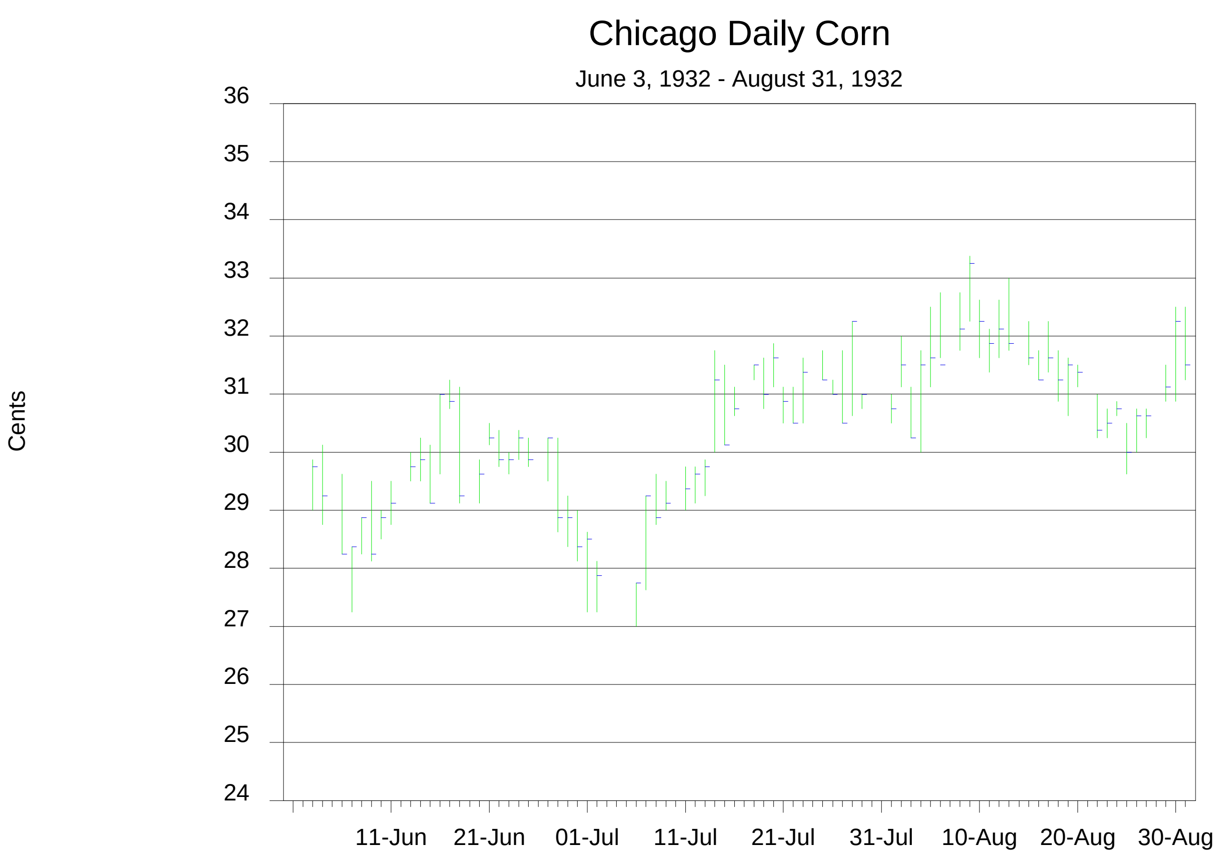


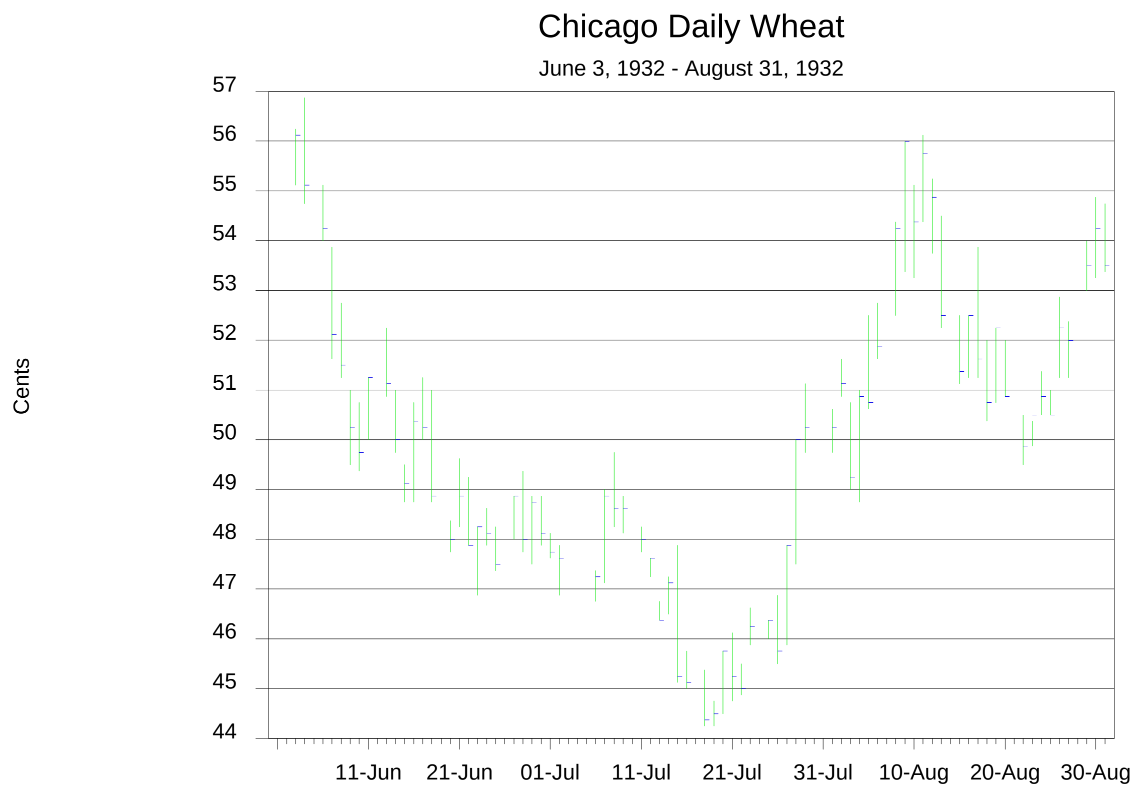
Chicago Daily Oats
June 3, 1932 - August 31, 1932
Cents
23
22
21
20
19
18
17
16
15
11-Jun
21-Jun
01-Jul
11-Jul
21-Jul
31-Jul
10-Aug
20-Aug
30-Aug



Chicago Daily Rye
June 3, 1932 - August 31, 1932
Cents
36
35
34
33
32
31
30
29
28
27
26
25
24
11-Jun
21-Jun
01-Jul
11-Jul
21-Jul
31-Jul
10-Aug
20-Aug
30-Aug


New York Daily Silver
June 3, 1932 - August 31, 1932
Cents
30
29.5
29
28.5
28
27.5
27
26.5
26
11-Jun
21-Jun
01-Jul
11-Jul
21-Jul
31-Jul
10-Aug
20-Aug
30-Aug
Date: 1861 - 1932


Chicago Daily Corn
June 3, 1932 - August 31, 1932
Cents
36
35
34
33
32
31
30
29
28
27
26
25
24
11-Jun
21-Jun
01-Jul
11-Jul
21-Jul
31-Jul
10-Aug
20-Aug
30-Aug



was the lowest rate of interest in Britain since 1897.

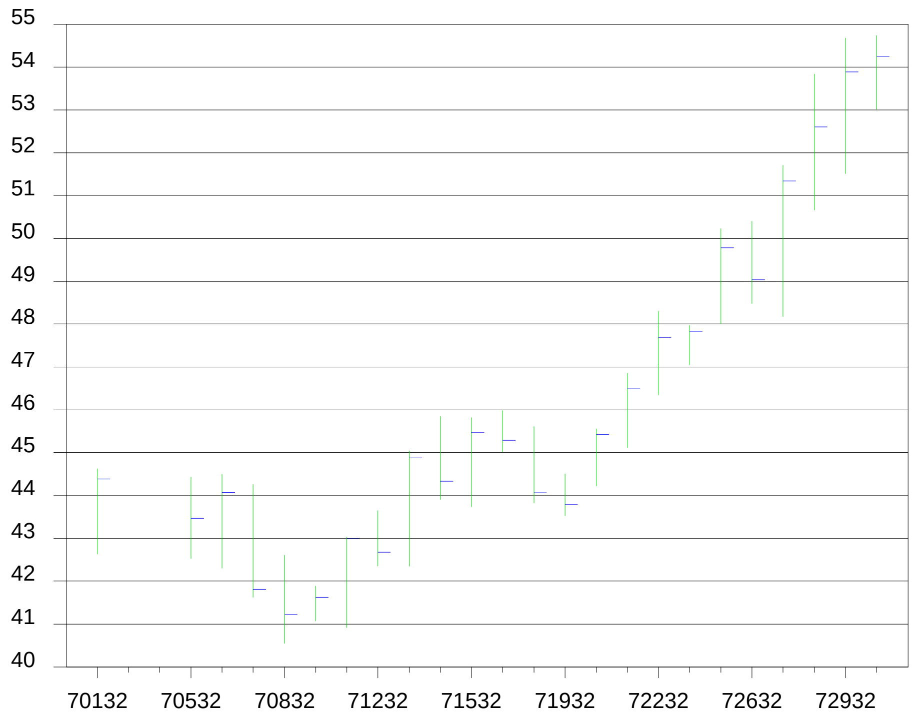
As July entered, bringing with it the third quarter, tagging along was the final low for this devastating bear market. At last it had arrived, disguised as just any other normal day on the calendar. Would this day hold some special meaning? What had distinguished this day from another? Why July? Why now?

As July opened, the total value of stocks listed on the New York Stock Exchange had declined to their lowest point, $15.6 billion, which was a far cry from where they had once stood following Labor Day in 1929. July 1 had opened down slightly, reaching a low quite quickly at 42.64 on the Dow Jones Industrials. As the day progressed, the market managed to rally back to 44.63 closing the day near the high at 44.39. That was it. The market would close for the Fourth of July weekend. Congress had adjourned as well and everyone had the holiday to think things over.

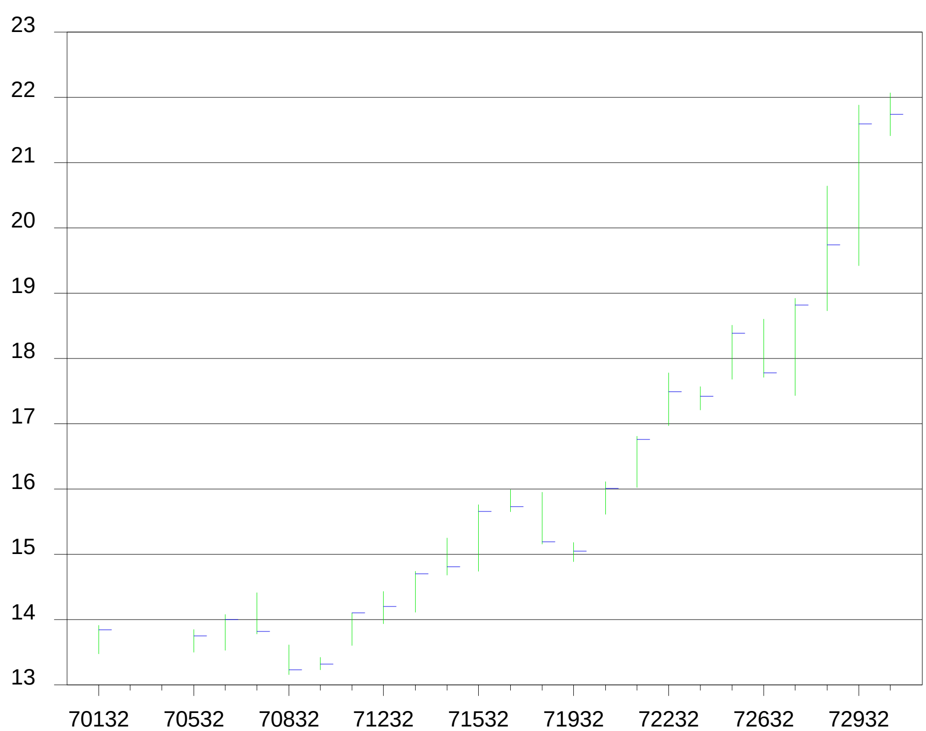
By a strange coincidence, holidays seemed to play some sort of invisible role in providing turning points for markets. The peak in 1929 came right after a holiday and then the market abruptly turned in the opposite direction. Once again, the long three-day weekend had some sort of strange and mysterious effect. For when traders returned, it became a different game altogether.

The Fourth of July had fallen on a Monday that year, so traders had another short five-day session ahead of them. The market opened a little stronger on Tuesday and moved upward to test out the overhead resistance. That didn't take very long and the high of the day was quickly formed at 44.63. From there the market fell to 42.64,

Dow Jones Industrials Daily July 1932



Dow Jones Railroads Daily July 1932



rallying back to nearly the midpoint and closing at 42.47. Volume was not especially significant, registering at 613,000 shares for the day.

On Wednesday, July 6, the market fell to test support, dropping as low as 42.31 and matching the previous record low which had been established during June. The market bounced rather quickly from that support level and reached as high as 44.50 intra-day before closing at 44.08.

Then on Thursday, July 7, the market opened near the unchanged level and moved up trying to get through resistance but failed. The high of the day was formed at 44.26. From there the selling pressure began to build and the industrials fell to a new record low, pushing through the June support area. This time the low formed at 41.63 and the market closed at 41.81.

The feeling most traders left with that day was one of bearishness. The consensus was looking for a test of 38 or at least 40. After all, the closing was under 42 which didn't speak well for support. Nonetheless, as Friday rolled around, the market pushed lower, dropping to 40.56. It rallied back to 42.61 but fell for the close and settled at 41.22, which was even lower than the previous record low of Thursday.

It was that Friday, July 8, 1932 which had won the special attention of the market gods. That was the lowest close as well as the lowest intra-day price this bear market had dealt. Volume was not especially out of line, merely pointing a figure at 720,000 shares which had changed hands. In fact, volume on Thursday had been greater, coming in at 784,000 shares.

Some have tried to look back to find a definitive reason why the market bottomed that week. But there was not much news that was shocking. On July 2, Franklin D. Roosevelt was nominated at the Democratic National Convention, but this was no great surprise. On July 5, Hoover had authorized that another 45 million bushels of wheat and 500,000 bales of cotton be given to the American Red Cross from the Federal Farm Board. Call money dropped to 2% for the first time since October 1931 so you couldn't blame the final decline on a money squeeze. But there was nothing of major significance other than those three events that week.

On Monday, July 11, the market attempted to test the support areas once again. Indeed, many still believed that the market was going to move lower. The Dow Jones Industrials fell to 40.92 that day but then suddenly, they rallied back to 43.03, closing at 42.99. Volume was not exceptional, registering only 597,000 shares that day. For the balance of the week, volume began to rise. Tuesday posted 700,000; Wednesday, 980,000; Thursday, 999,000; Friday, 807,000; and Saturday, an impressive 350,000 shares changed hands. The market essentially had traded between 42.35, reaching 45.98 on Saturday and closing near the high that day.

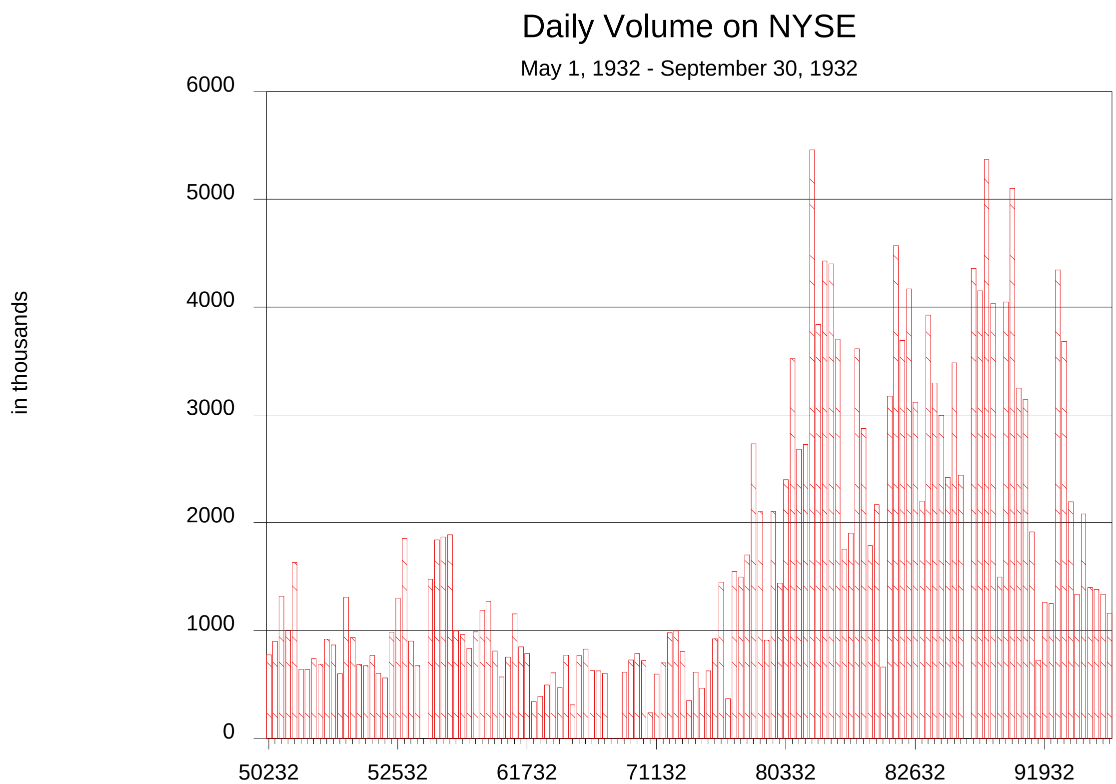
The following week of July 18, volume continued to increase with Friday posting 1.4 million shares. Volume hadn't exceeded the million mark on a daily basis for five weeks. The low for the week was 43.53 and the high came on Friday at 48.31. On a percentage basis, 8 points from the low was nearly a 20% rally.

The rally was being attributed to various things depending upon which newspaper you read. Some talked of noticeable foreign buying, others focused upon Hoover's signing of the $2.1 billion unemployment and farm relief bill of July 21. Some remarked that commodities were improving. Coffee was rising over an embargo against Brazil and talk of revolution in that country, but lead dropped to its final low at 2.65 cents on July 18. Still others pointed to the interstate Commerce Commission's approval for the merger of four eastern railroad companies. Still others talked of the Federal Home Loan Bank Bill, which created the system for guaranteeing mortgages signed by Hoover on July 22.

Perhaps one could make a case for each of those fundamentals. However, Hoover had instituted many programs and right from the beginning he took aggressive action to raise public spending. The truth of the matter is that the market began to turn largely upon a psychological explanation. Enough was enough!

During July of 1932, the most daring Communist insurrection took place in Washington. Some 11,000 veterans marched on Washington, demanding immediate cash payment of the soldier's bonus instead of spreading it out over several years. The mob was further enraged by several Democratic Congressmen who addressed the mob criticizing Hoover's opposition. The mob turned violent yet Hoover, unaware that it was actually Communist-backed, maintained his patience until late September when troops were called out. This was certainly bearish news at the time, yet it had little effect upon the market.

As the final week in July opened, the market gapped higher. The low of the day was quickly posted at 48.01 for all to see. The market continued to rally, reaching 50.23 and closing at 49.78 with volume of 1.5 million shares. Volume continued to increase steadily. On Tuesday, it reached

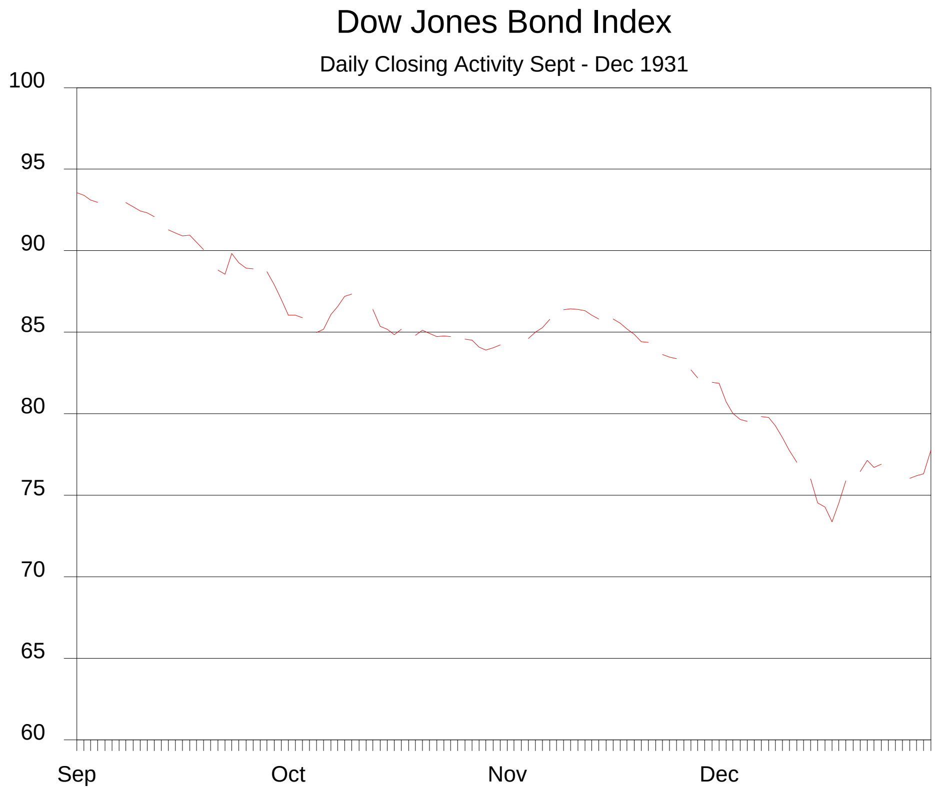


1.5 million; Wednesday, 1.7 million; Thursday, 2.7 million; and Friday, 2.1 million shares. There had not been a 2 million share day since March of 1932 and as far as back-to-back 2 million share days, well that hadn't been seen since February when the market was charging off to form the highs of the year.

July had posted so little volume during the beginning of the month that total volume was merely 23 million shares, a bare fraction more than June. But as the market continued to soar, volume intensified. August posted 82.6 million shares, the highest monthly volume since 1930. September turned a respectable volume of 67.3 million, but going into the elections, volume dropped off again and by January 1933, it had declined to record lows of 18.7 million shares which would be the lowest point on volume for the entire Great Depression. But to give you a hint of how nervous the market remained, in May 1933, volume jumped to 104.2 million shares.

August had opened perhaps only 1 point from what would become the low for the entire month. From there the rally continued. The Dow Jones Industrials reached a high of 77.01 on August 29 and closed the month at 73.16. The rails, which had also bottomed on July 8 at 13.16, had rallied up to 37.94, far outpacing the industrials largely on the approval of the railroad merger. The bonds, however, had actually bottomed on June 1, one month in advance of the common shares. From the June low of 65.78, the bonds reached their peak in August at 83.26.

The headlines during August as the market soared were not necessarily filled with buoyant, bullish news. On August 3, the Secretary of the Treasury resigned. On the 8th, the big news was the market reaching



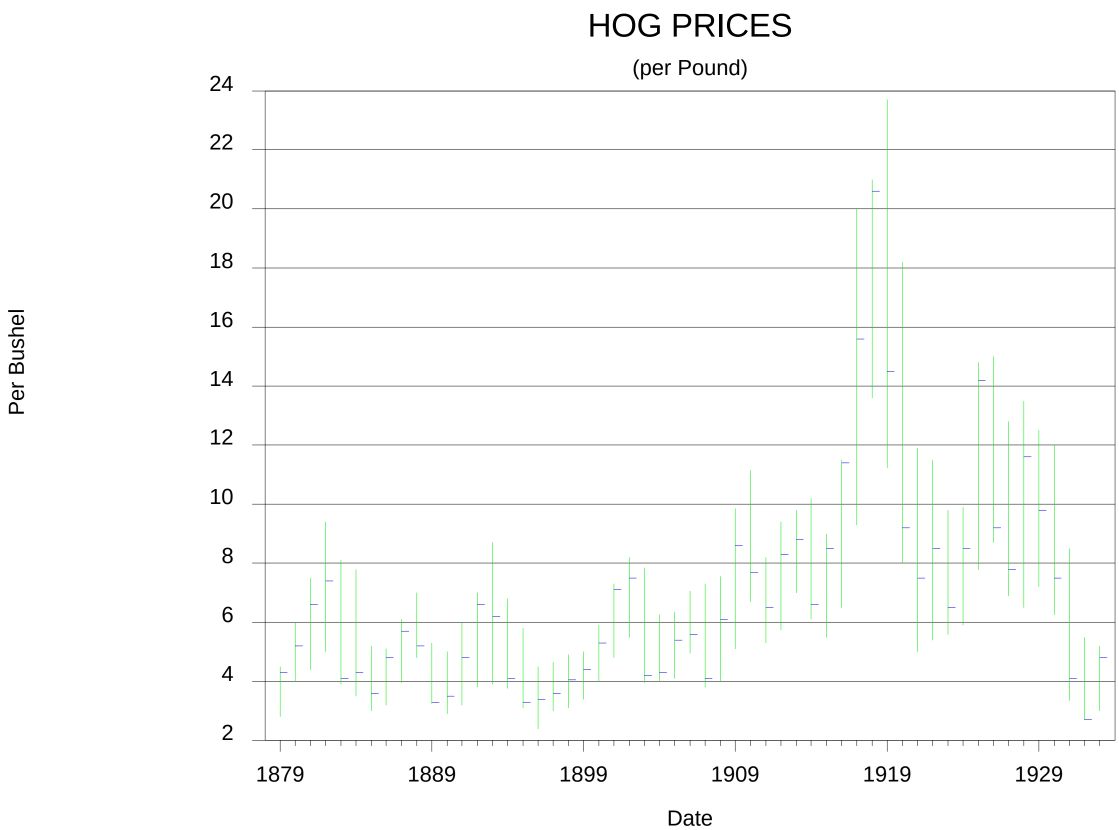
Source: Dow Jones

5.5 million shares in volume, the "largest since October 1930!" On August 16, the National Farmers' Holiday Association in Des Moines adopted a resolution to hold all farm products until prices rose above production costs. This was seen as bullish for the agricultural commodities so the stock jockeys joined in and claimed it was bullish for equities. On August 23, the papers turned their attention to the bond market since it tested 83.26 on the Dow Jones Index. But as usual, when it makes the front page the trend is over and that was the precise high for the balance of the year.

On August 23, tire shipments in June registered the highest on record, up 86.1% over June 1931. But the bearish note was that unusually large orders came flowing in due to the anticipation of the new excise taxes which were about to be imposed.

Steel ingot production was reported to have declined even further, nothing bullish there. Cotton soared and reached its high for the year at 9.2 cents on August 27. Banker's acceptances had declined by $400 million, reaching their lowest point for the depression in August at $681.4 million outstanding. In general, the gossip was the main market mover that month. That told tales of anticipated trade revival.

As the summer was approaching its end, Labor Day had arrived on September 5. The industrials exceeded the August high, reaching 79.22 on September 3 just as the market was preparing for the holiday. Then sure enough, when the market reopened on Tuesday, September 6, the industrials reached their peak at 80.36 and began a decline into the end of the month, falling back to 65.06 on a closing basis. The rails had continued into Thursday, September 8, reaching 40.85 and then falling back to



29.71. The bonds had peaked on Tuesday, August 23, well in advance of Labor Day.

The Fourth of July-Labor Day rally had sparked a lot of confidence that summer. Many people believed that the worst was over and it was back to happy-days-are-here- again. But from the Labor Day highs, the market fell rather sharply. The Wall Street Journal commented in its review of the month as follows: "In September the stock market showed reactionary tendencies which commenced around the eighth of the month and continued during the rest of the period with several breaks. A variety of reasons was responsible for this movement. The upward swing which commenced in July had been carried too high and there was the necessity of establishing a balance; then too prices of cotton and wheat again turned downward which lessened confidence considerably and finally the expected trade revival did not materialize. Political considerations likewise proved a disturbing element. In Maine the Democrats succeeded in gaining the Governorship and several Congressional seats which was construed to mean a Democratic victory in the fall."

Curiously enough, much apparently still rested upon the relationship between commodities and stocks. The fact that the commodities had never risen to new highs after the peak in 1919-20 did not prevent the stock market from scoring substantial new highs in 1929. But you will recall that in the pre-1928 years we found that the disbelievers of the bull market and the economic boom had based a large part of their bearishness upon the fact that commodities had remained depressed. Many analysts had seriously doubted a bull market could unfold unless commodities participated. Here at the bottom in 1932 we find commodities serving as a crutch for the stock market once again. The fact that the commodities by and large declined between 1920 and 1932 while stocks rallied into 1929 before falling to new lows for this century did little to change the traditional perspective of commodities and stocks moving in harmony.

From the Labor Day highs of 1932, the industrials continued to decline gradually, reaching their lowest point in February 1933 just prior to the closing of the exchange due to the Banking Crisis. But from that low, the market never looked back at the 50 level again. It continued a broad yet choppy rally which eventually saw the 100 level again before the end of 1933. The rally would continue into 1937.

What caused the abrupt rally which doubled the market between the July low and the Labor Day high? The Wall Street Journal attributed the rally to a cessation of gold exports, rumors of foreign buying, a general rise in commodity prices and the approval of the railroad merger. The New York Times basically stated that the obvious answer to the rally was that the market was severely oversold and added to this was a general rise in commodity prices.

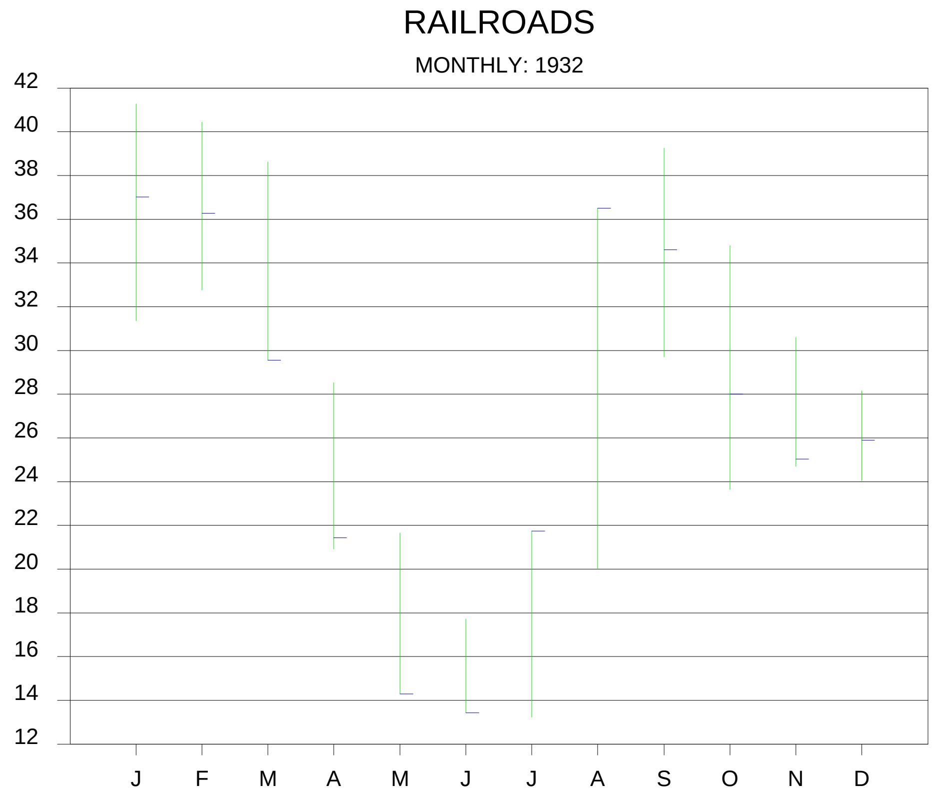
Perhaps in part some of the first stocks to rise were the "wet" stocks as Wall Street called them. In July, they began to rally as repeal of prohibition was bantered about. Wall Street had searched for companies that would benefit the most, and the list included Owen-Illinois Glass Co., National Distillers Products, American Commercial Alcohol, Crown Cork & Seal, and Park & Tilford. The "wet" stocks were the leaders getting the edge on the others by one week. Perhaps that was what Wall Street was waiting for all the time, a good old fashioned legal beer.

In the June 27 edition of Time magazine, a statement made by General Charles G. Dawes, the President of the Reconstruction Finance Corporation was quoted. The statement given in Chicago read: "I believe that we have reached the turning point in the Depression...It is the smaller business enterprises with low overhead expenses which seem to be showing improvement. But in time the larger ones must necessarily follow...I would attribute much more importance to the increase in electric power consumption in the country during the last two weeks than to stock or bond quotations." Time appropriately went on to state..."Only factors tending to discredit this Dawesian cheer last week were his past record and the still-sagging index of business conditions. In general Dawes' record are the following utterances: 'People do not realize that conditions are gradually improving,' June 5, 1930...'It (the moratorium) is an augury of improved financial conditions,' June 20, 1931."

There is no doubt that Dawes, like 99.9% of most people, was attempting to apply logical reason to why the business conditions should turn. The problem was that if you make such statements all the time, sooner or later you're gonna be right. This was published just one week prior to the turn in the stock market.

But the old adage that when a market declines on bullish news, it must mean that it's a bear market and, conversely, when a market rallies on bearish news, it must be a bull market, has some validity.

Trying to search for decisive bullish news was difficult. In July, Colgate- Palmolive Peet Co. cut its dividend from $2.50 to $1. This news prior to July was extremely bearish. Yet it did not prevent this stock from rallying sharply into August. In late July, it



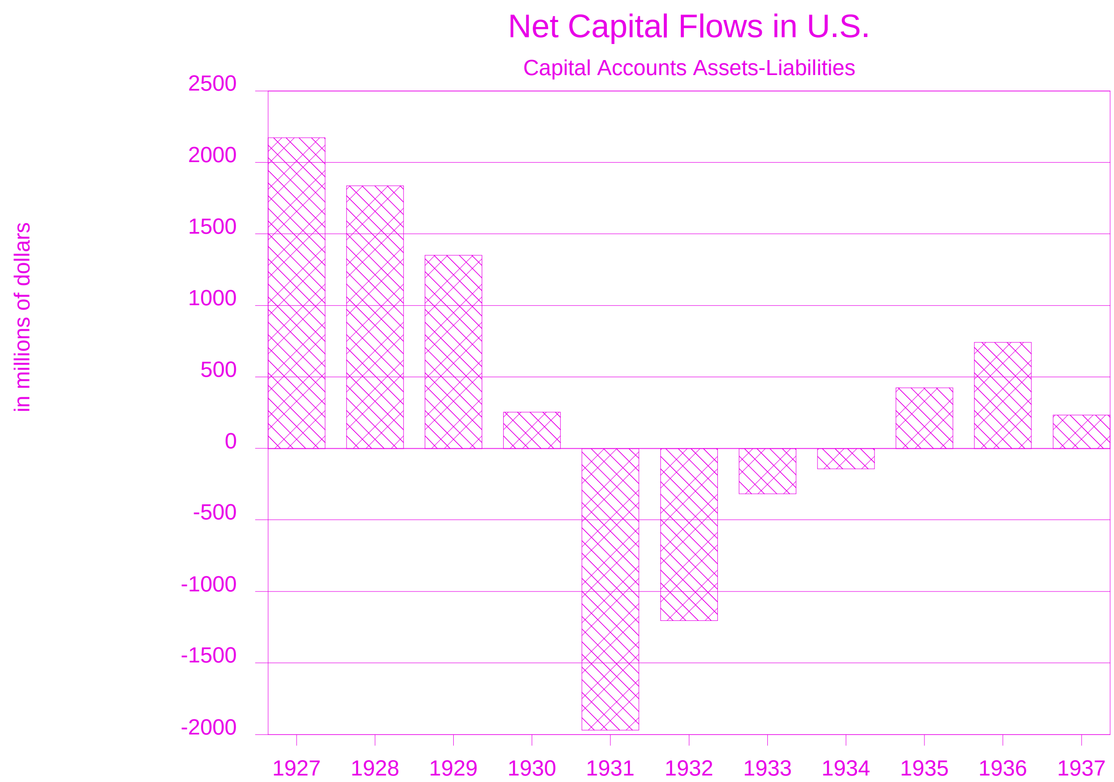
was reported that steel capacity utilization had fallen to 12%. Clearly a decisive bearish piece of evidence.

In the July 25, 1932 edition of Time magazine, it was reported that First National Bank of Boston would not have set about raising the money last week had they not expected higher interest rates in the autumn." Indeed, interest rates, using the discount rate at the Fed, had actually bottomed back in 1931. From the June low on the discount rate, the trend was clearly and decisively higher. The stock market had bottomed with the secondary low in interest rates which had taken place during 1932. Oddly enough, as rates moved higher so did the stock market. One could not make a case for the market bottoming because rates had risen. The opposite was in fact the case.

Throughout July and August the Kreuger/Swedish Match Scandal continued to dominate much of the press space. The list of casualties continued to widen as the debts he left behind after his suicide continued to mount reaching $225 million. Banks were chasing banks and everyone was scrambling for claims where several parties had been promised the same collateral. Even banks in New York were involved, yet this bearish news did not affect the rally.

In the August 8, 1932 edition of Time magazine the following commentary graced its business page which for so long had lacked much news about the market itself. The article reported:

"People who believe that pessimism has been the chief drag against business felt better last week. The mercury in the sensitive thermometer of sentiment went shooting up. Warmest of rays was a sensational



rally in stock prices. What had started three weeks prior as a slow creeping advance suddenly became a running leaping market. In percentages, even the famed Moratorium market with its 28.9% gain in 25 days was outdistanced. Railroad shares jumped a whopping 58%, utilities 38%, industrials 37% in 22 days, putting on millions of dollars of weight, much goodwill. Brokers bellowed with joy at the windfall of a 2.8 million share day.

"Observers were inclined to think the rally started through belated recognition of the following fundamentally bullish items:

1) the Lausanne Agreement.

2) the cessation of gold withdrawals and foreign buying of U.S. securities.

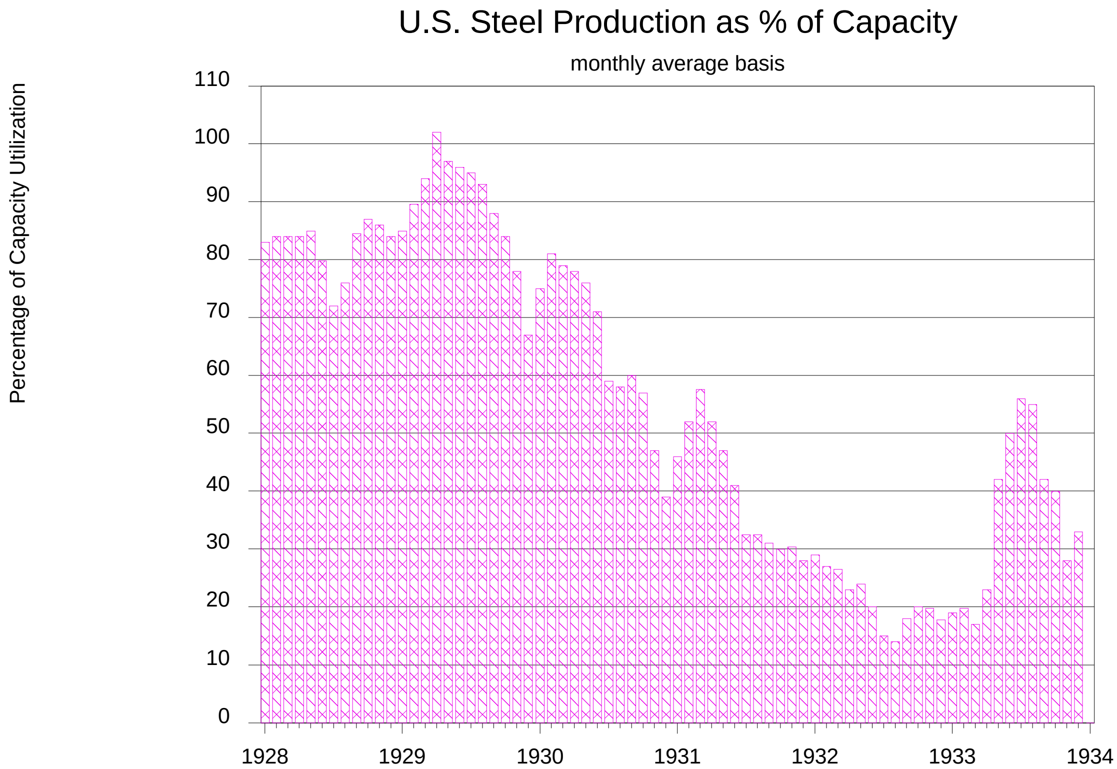
3) the ICC merger decision.

4) expansion of credit."

Time magazine went on to tout the rise in commodities. In keeping with the rest of the consensus, Time surmised that a rise in commodities would help many companies and in turn firm up earnings. The rally in commodities was the single biggest jump in across the board commodities since 1925.

The commodity market did literally soar. Sugar, metals, cocoa had all rebounded back to early year levels. Wheat jumped up 4 cents. Although some commodities had made periodic sharp rallies such as wheat over the Japanese war scare, this was the first broad-based commodities rally. But the nagging question remained. If the stock market rallied because the commodities took off, then what made the commodities rally? Stocks?

The truth of the matter is this. Although commodities rallied quite sharply due to various rumors involving Russia, wheat fell to its lowest historic point following the elections in November. At the same time



call money reached an historic low of 1%, and time loans (60 days) went as low as 1/2% compared to 3.5% in November 1931. Therefore, the market observers may have attributed the rally to the commodities, but the commodities eventually fell to new lows in November. The stock market held the July lows and never violated the 50 area again. The argument that stocks rallied because commodities had finally turned isn't logical since when commodities fell to new lows, stocks supported.

In the August 15, 1932 edition of Time magazine, the following comment upon the rally in the stock market appeared:

"Cornered bears, fat with three year's profits, fought madly to cover their short positions. Badly squeezed, they howled loud and long. Once the rally was well under way their frantic buying helped pool managers to push stocks up and up. Outstanding leader of the advance was American Telephone and Telegraph which soared from $70.25 a share to $114.25. U.S. Steel more than doubled its Depression low of $21.25; many stocks tripled in value. Large orders from European money centers swelled the volume of U.S. buying and the dollar rose smartly."

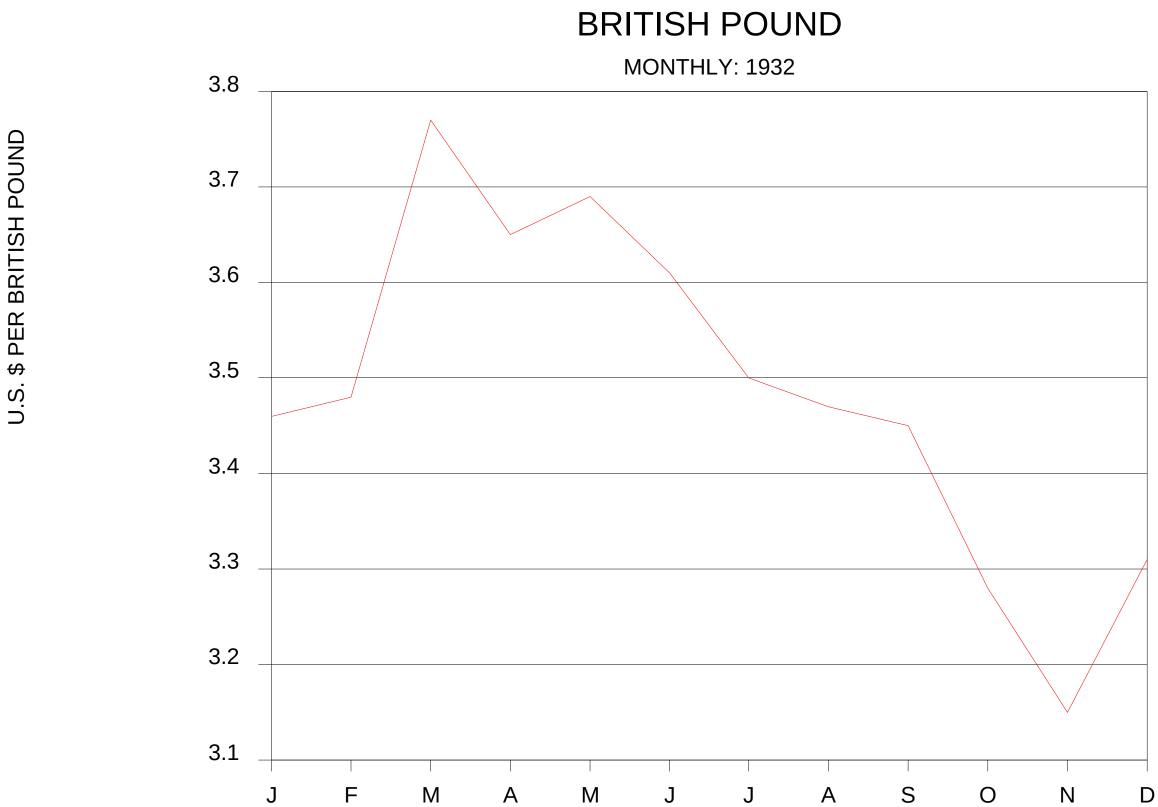
Here we find another reference to large European orders flooding the market and the dollar rising. Short covering was certainly noted, but keep in mind that with the witch hunt still going on and the publication of who was short, the actual short interest had declined significantly. Most of the buying seemed to be real and flowed from Europe into the States, pushing the dollar higher as foreign currencies were being converted into dollars to facilitate U.S. investment.

Note that Time magazine reported on the sharp advance U.S. Steel had made. Here is a comment on U.S. Steel published by Time magazine on the 8th of August. It read as follows:

"While newshawks who had been waiting about an hour held a mock directors meeting, irreverent and bawdy, the solemn directors of United States Steel Corp. pondered the worst quarterly earnings statements in the company's history. They finally decided to vote the regular preferred dividend, but in explaining the action to the press, Chairman Myron C. Taylor made it abundantly clear that 'improvement in business and net earnings must in future determine dividend action on the preferred stock.' Because a very similar statement had presaged omission of the common dividend, because steel operations last week were but 16.5% of capacity whereas they must be 35% to 40% to earn the preferred dividend, Wall Street assumed that when the Board meets October 25, two weeks before Election Day, the preferred dividend will be passed for the first time in the company's history."

Here we have definitive news, which had fueled the bear market into its July low. News of dividends being cut or omitted was what the bears fed on for a long time. Yet why would U.S. Steel be one of the leaders in the rally when in the very midst of it, Wall Street anticipated that U.S. Steel would eliminate its preferred dividend in October? Again we find that the prior analysis which had been bearish seems to have been ignored during the rally.

In Time magazine, the following report on the market contains some interesting commentary on the rally as well. Publication date was August 22, 1932.

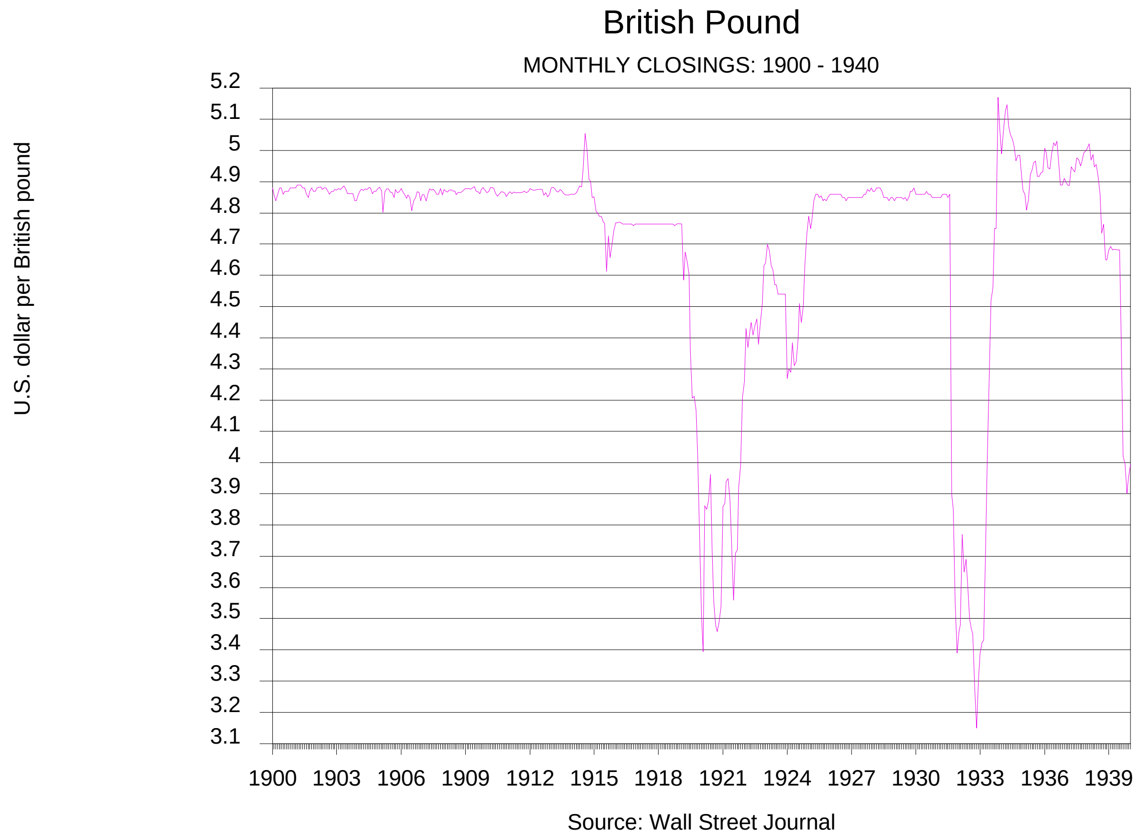


"The great pot of the New York Stock Exchange continued to boil hotly most of last week, but in the last two days the fire of bullish enthusiasm cooled, stock prices lost more than one-fourth of their month long rise. Speculators for the advance amazed at their swift-gotten gains, suddenly rushed to cash in. At the rally's peak, railroad shares stood 127% above their bear market lows, utilities 83%, industrials 74%. Stocks as a whole had climbed up the opposite side of the valley to a point abreast their prices last April. Market observers who had been wagging warning fingers at the almost perpendicular ascent of the last fortnight, smiled knowingly. Having predicted a sharp technical reaction, they were not surprised that it was all the sharper for being so long delayed."

The first portion of this commentary states that many observers were calling for a reaction. Of course that is always the case after such a rally. But the 25% correction from the August high was just that. The sentiment seemed to suggest that the market had peaked and it would not continue in its correction. But to the surprise of all, the market rallied and outdid the high mentioned in this report. Nonetheless, the commentary that followed is quite interesting. Time went on to report:

"Among the first to start the harvest were shrewd foreign buyers who were reported to have entered the market at its very trough. Volume of trading swelled to 23,595,000 shares for the week, largest in more than two years. Entering this week both stock and commodity markets steadied with trading at a reduced pace.

"In the last days of the wild uprush, rumors of pools flew thick and fast. Farm equipment shares were bulled vigorously on the reports (all denied) that Russia was about



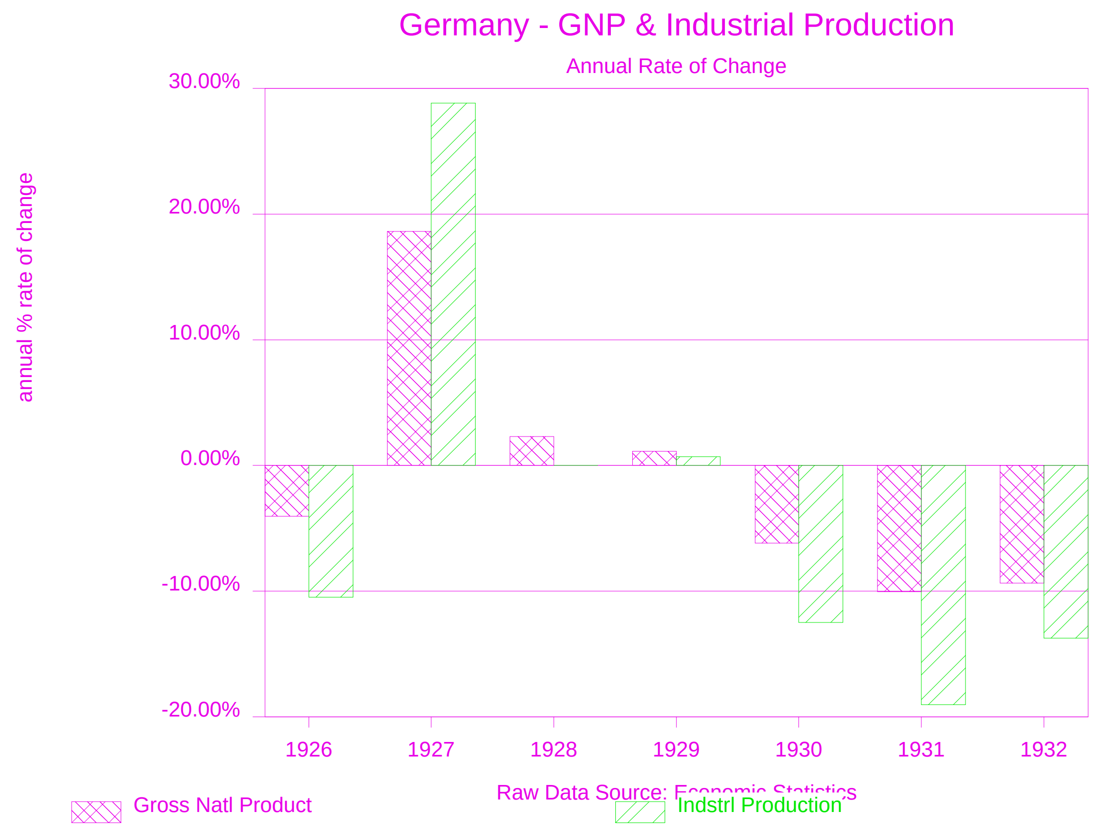
to float a bond issue in the U.S., would presumably use the funds to purchase farm machinery. From the June low of $16.75, J.I. Case shares (plows, harvesters) were whirled up to $62.50. In the two-day reaction they slumped to $46. If the Russian bond story was pool inspired, pool managers must have been amazed to see the old Russian Imperial issue, which has long slumbered on the Curb at less than 1 cent on the dollar, suddenly aroused and run up to 3.25 cents on the dollar."

In London, the noted publication entitled the Economist, carried this comment on the American situation in August:

"It would be rash to predict that America is within sight of general economic recovery, for the forces bearing down are almost as ineluctable as those which... forced her to the peak of prosperity. Nevertheless, there is reason to think the Giant of the West has passed the crisis in his sickness."

The American press had also commented on reports from brokers who noted increased "foreign buying." Did overseas buying contribute to the turn in the market? If so, why were European investors moved to suddenly buy U.S. equities once again? To solve these riddles, we must look at the foreign perspective and the influence of foreign exchange at that time.

The European situation was still greatly varied from one nation to another. The contrast was perhaps most noted between Britain and Germany. In Britain, contrary to wide belief, it had been the National Government which chose to abandon the gold standard back in 1931 and not the Labour Government. Despite the warnings that everything would collapse, Britain had finally made a smart move. The whole-



sale price index of the Economist initially rose 4 points following the devaluation, but from its peak in October 1931, it declined rather steadily into June of 1932 where it had reached its low for the depression and began to rise in July. Britain had not put up trade barriers to agricultural products and as a result it benefited greatly from imports in that sector, which had continued to decline in price.

The pound itself initially dropped, closing at $3.90 in September of 1931. From there it steadily declined against the dollar, reaching on initial low at $3.46 in January 1932. The dollar sharply declined into March coinciding with the stock market break, and the pound rose to $3.77. The pound began to decline steadily from that March high and by July it had fallen to $3.50. Buying from Britain was sparked largely due to the declining wholesale prices and fear that the pound would drift much lower. Therefore, European buying of U.S. securities which was reported from many sources in July, was largely driven by a hedge against a fear of further devaluation of the European currencies. They were correct in that respect because the pound declined into November, dropping to $3.15.

The general consensus of opinion in Britain was largely propelled by the abandoning of the gold standard and propaganda by the Labour Party that Britain would be headed toward another Great Depression as was experienced during 1922. The opinion of the dollar changed dramatically when the Democratic victory came in November.

Much of the 1932 Presidential campaign had centered around the gold standard and the tendency of Roosevelt toward a dollar devaluation. Even though he had at first supported this idea, he changed his opinion going into the election. The Europeans were sure that Hoover would win and that the American people would see through Roosevelt's continual vacillation on issues from one speech to the next. His attack of the tariffs was merely another example. When farmers became enraged, he changed his position to state that he would not lift the tariffs against agricultural products. Perhaps it takes a party outside the situation to make a less biased analysis of the situation.

Nonetheless, the Europeans began to sell the dollar dramatically when Roosevelt won the election. November 1932 was the lowest point for the pound at $3.15. Within one year, by November 1933, the pound had risen to $5.17, a completely new record high, out of fear of Roosevelt's policies.

In respect to the foreign buying of U.S. securities in July 1932, it was clear that the sentiments in Britain at the time were bearish on the pound and the consensus of opinion was still looking much lower. For that reason, many astute Europeans were buying the dollar-based investments. This coupled with the general press, which seemed to express the opinion that the U.S. economy was turning around, helped make those U.S. common shares look attractive.

The situation in Germany was notably different. The policies of Bruning had forced upon Germany a severe deflation, which by the fall of 1932 had cut the standard of living by nearly 50%. Bruning had maintained high protective tariffs upon food imports largely at the request of the Prussian landowners. As a result, wheat was costing the German consumer twice as much as in the United States. Although Bruning had been driven from office, Communistic and Hitlerist groups were gaining much popularity. These serious deflationary policies led to Hitler's victory in 1932. Again, capital's motive was toward U.S. investment largely for political concerns.

If we refer back to the Wall Street Journal's comment of September 1932 that the decline from the Labor Day high was in part created by the Democratic prospects of a victory in November, then we should consider the effects of the campaign upon the market. The general consensus in Europe, as I stated earlier, leaned toward a Republican victory in the fall. Much of the financial community was also in favor of the Hoover ticket. The popular vote, however, swung in favor of the Democrats without real understanding of its implications.

Roosevelt had conducted a campaign based opon many outright lies and continually tried to assert that the blame for the entire world depression belonged to Hoover. In several addresses he misrepresented the situation and claimed that the depression had begun with Hoover and spread to Europe from his administration. Of course this was completely false because it had been clearly established that the depression had begun in Europe long before it emerged in the States. The entire central bank conspiracy, which Adolf Miller and Hoover tried to prevent in 1925, was evidence of that fact. This turned many bankers and leaders in the financial districts against Roosevelt. Nonetheless, the uninformed public at large knew little of the international circumstances.

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