N·A·S·D News

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Lineup for '52

Officers nominated for 1952 line up as follows:

Chairman of the Board

Clarence A. Bickel, of Milwaukee, Vice President and Treasurer of Robert W. Baird & Co., Incorporated, and a general partner of Robert W. Baird & Co.

Vice Chairmen

W. Fenton Johnston, New York, partner of Smith, Barney & Co.

Harper Joy, Spokane, Executive Vice President, Pacific Northwest Company.

Treasurer

Charles P. Cooley, Hartford, senior partner, Cooley & Co.

Executive Director

Wallace H. Fulton, Washington, D. C.

These nominations will be voted upon by the Board of Governors at a meeting in January. In keeping with tradition, seven retiring Governors served as the Nominating Committee for next year's slate of officers.

The members of the Nominating Committee: Howard E. Buhse, Chicago; Warren H. Crowell, Los Angeles; James J. Lee, New York; Frederick H. MacDonald, Kansas City; Charles H. Pinkerton, Baltimore; Sampson Rogers, Jr., Chicago; Jesse A. Sanders, Jr., Dallas.

W. Fenton Johnston

Clarence A. Bickel

Clarence Bickel was born in Fort Wayne, Ind., attended the School of Commerce at Northwestern, got a CPA degree in Illinois in 1929. Picked a nice year, 1928, to get into the securities business. Joined his present firm in 1933, also a memorable year. The Baird firm then was the First Wisconsin Company.

Fenton Johnston came from Massillon, O. He graduated from Ohio State in 1919, entered the investment business in 1922 with Harris Forbes & Co.

Harper Joy is a transplanted Missourian, Sedalia being his birth-place. He graduated from Whitman College, of which he is a Trustee. He's been with his present firm since 1922.

Charlie Cooley was born in Hartford, Conn., attended Pomfret School at Pomfret, Conn., and graduated from Yale, class of 1926. Charlie's been in the brokerage business most of his life, first with Thompson, Fenn & Co., then Francis R. Cooley & Co., which is now Cooley & Co.

Wally Fulton has been the principal administrative officer of the Association since its founding.

New Booklet

"Understanding the Over-the-Counter Securities Market", a new booklet privately published, is being released this month.

Publishers are Commodity Research Bureau, Inc., of 82 Beaver Street, New York City. This Bureau published a similar booklet on listed securities some time ago.

The booklet is written for the layman. It explains the over-the-counter market, the importance of the dealer as both a distributor of new securities, and as a maker-of-markets for outstanding securities and additionally, the range of his investment services. Other chapters are devoted to mechanics of the over-the-counter market, quotations services of the NASD and the Association's other functions.

Copies of the booklet will be available at the Bureau's office in New York at this rate schedule—

Quantity	*Price per copy*
Under 100 (No Imprint)	25c
100 to 249	22c
250 to 499	19c
500 to 999	17c
1,000 and over	15c

If requested, your firm name will be imprinted on the front cover of the booklet at no extra charge.

Harper Joy

Credit Control

". . . the enthusiasm and interest demonstrated by all those serving . . . has confounded the cynics and those who sneer at self-regulation."

The quotation is not a plug for NASD—except indirectly.

It is an excerpt from a statement made by Federal Reserve Board Chairman Wm. McChesney Martin on the work done by the investment banking business in aid of voluntary credit control. The occasion for the remark was a recent meeting in Washington of the key regional and national committee members.

Other encouraging words were also recently expressed by Governor Oliver S. Powell of the Reserve Board, in command of the voluntary credit control program.

"The failures of others," said Governor Powell, "to do their utmost in the restraint of inflation does not relieve us of the obligation to do our best.

"If we do our part, we shall have the satisfaction of a job well done. In years to come the finger cannot be pointed at private finance for having failed in their part of the fight against inflation and we shall have set an example to be emulated by all others charged with parts of this important campaign."

Since the voluntary credit program got under way last Spring, representatives of investment banking communities in every section and through a national committee have endeavored to apply the policies laid down as a means of avoiding further governmental control over new financing activities. Regional committees have considered literally hundreds of pieces of business coming within the range of the program and bulletins have been published to afford tests for special types of financing.

Representatives of the investment banking community who have participated in this work feel that the Reserve Board is making a genuine and courageous fight to restrain inflation forces and to safeguard the purchasing power of the dollar insofar as their policies bear on that problem.

All agree that the need for controls on the voluntary basis will continue for some time to come. The Association therefore requests that all members strive to co-operate to the fullest with the industry's efforts in this direction.

Charles P. Cooley

"But Officer!"

A broker-dealer can't duck responsibility for acts of associates or employees by pleading ignorance of the acts. "I didn't know about these things" is about as effective a defense in securities laws violations as telling the speed cop you didn't know you were in a 20-mile zone.

Over and over again the SEC has laid down the principle that a broker-dealer firm will not be "permitted to shield itself from the consequences of a subordinate's undetected violations by pleading the very conditions which made the violations possible."

In other words, if the broker-dealer is on the job, the subordinate can't be on the make.

The latest occasion for this principle to be re-stated was an NASD decision expelling a member, who carried the case to the SEC. The Trial Examiner paid about as much attention to the "I didn't know" contention of the firm as the aforesaid speed cop does to your pleadings of ignorance of traffic laws.

The Trial Examiner at one point in his report said: "Aside from some attempts to indoctrinate their salesmen with ideals of ethical conduct in the securities business, both by lectures and by personal conversations with salesmen, practically nothing is found specifically of any supervision of salesmen." This particular firm apparently relied upon its traders and bookkeepers to tell partners should irregularities in accounts of customers occur.

The firm had offices in Boston and New York (among other places). One was passing the buck to the other for responsibility.

Stockholder Lists

The Board of Governors at its last meeting concluded that ample remedies, both in the rules of the Association and under existing law, are available to members who may be injured by the circulation of corporation stockholder lists. Therefore, it was concluded that it is unnecessary to adopt any special rule to deal with the matter.

It was agreed that members should exercise care in dealing with persons offering such lists and that members who use lists in their selling activities should be most careful not to abuse the rights of others.

The Board's action was the result of letters from members about the circulation of stockholder lists that had been stolen and were being sold.

These members disclosed that various corporations found their stockholder lists going into the hands of securities dealers who had no right to them — so far as the corporate managements were concerned. Since there had been no occasion, such as exchange of stock or issuance of rights, for current lists to be in anyone's hands other than the corporations', it could only be concluded that the lists had either been stolen or acquired by other improper means by the seller. The question of a third person using stolen property, the alleged unethical uses of the lists by purchasers, coupled with the public relations aspects of the matter were thoroughly considered by the Board.

Boston Secretary

Francis C. Doyle is the new District Secretary for District #14—Maine, New Hampshire, Vermont, Massachusetts and Rhode Island. His employment in the Boston office of the Association was preceded by several months' training in NASD examination work on the staff of the Executive Office. Prior to joining NASD, Doyle had "back office" experience with member firms.

Split Commissions

The Cincinnati and New Orleans stock exchanges are the latest to acknowledge that a dealer who is not a member but does originate business for the exchange deserves a cut on the business. Both exchanges have authorized their members to permit non-members to retain 40% of the commission on exchange transactions.

NASD News

Published periodically by the Board of Governors under the supervision of the Member Relations Committee,
HARPER JOY, *Chairman*
Editor, JAMES P. CONWAY

15,000,000 Or ?

It wouldn't take a person more than a couple of minutes to find out how many workers belong to unions, how many farmers there are or how many people wear bridge work as standard equipment.

It's a different story when it comes to learning how many people in America are stockholders. You can buy a figure between 5,000,000 and 15,000,000 and be sure that whatever figure you select could be contested by no one.

(For other news about stockholders, see page 4.)

The complete absence of reliable figures on stockholders in American industry has long been deplored. It has been a liability to many causes that real statistics on owners of corporations were not at hand at a moment when they could have been effectively employed.

Now, however, an effort is to be made to remedy the situation. Spearheaded by G. Keith Funston, new president of the New York Stock Exchange, and with Brookings Institution serving as clearing house and coordinator, a program to gather the facts has been launched.

The National Association of Securities Dealers is cooperating and has been assigned the task of canvassing 2,500 companies whose securities are dealt in over-the-counter. NASD's contribution has been teed off with a letter to the heads of the 2,500 companies from Wallace H. Fulton, Executive Director.

Attention is called in the letter to the following excerpt from an editorial in the *New York Times:*

"No group, perhaps, has contributed more through the years to the solid expansion and strength of the American economy than our equity investors—the people who have shouldered the risk-bearing function which is an essential part of the free enterprise system . . . But if that segment of the community representing stock ownership is to make its maximum contribution to the determination of national policy, then a logical first step is to ascertain its strength and distribution."

There has been much uninformed talk about the American people's ownership of industry, the letter to the industrialists says.

"Now," he adds, "the facts are to be gathered."

The analysis of the ownership of corporations will seek to establish: (a) number of owners; (b) income groups; (c) distribution by States; (d) economic status and characteristics and other vital facts.

"Corporations need both workers and savers—in many instances, one and the same," the Association letter states. "The more Corporations know about these people the more intelligent and effective can be their efforts toward maintaining and improving their respective public and stockholder relationships.

"This project, because of its obvious constructive potentialities, is a challenge to everyone to contribute to the full what is asked of each, respectively."

All data supplied by corporations is to be treated in confidence, of course.

Members of NASD can do their part by spreading knowledge concerning this project among managements of corporations they are in contact with and in every way assisting in its progress.

"Securities Regulation"

A man who knows the subject and how to write about it is the author of a book on securities regulation, called, of all things, "Securities Regulation."

He is Louis Loss, Yale Law School graduate (1937) and presently Associate General Counsel of the SEC. In addition to his job at the SEC, Loss has served as visiting lecturer in Law at Yale since 1947.

The book, to be published in December by Little, Brown & Company, will contain complete coverage of the seven statutes under which the SEC operates, a summary of state regulation of securities, a thorough treatment of recent developments in management security-holder relations and civil liabilities under the SEC statutes, plus a practical description of SEC procedure. The book also is to deal with broker-dealer matters, development of broker-dealer fraud law and will also discuss the Maloney Act and the functions and operations of NASD.

Loss has tried to keep his book from being just a text book for legal eagles. He hopes it'll be interesting and useful to his lay reader-market as well. We believe it will be.

District #11

L. Victor Seested has been appointed Secretary of District Committee #11—Washington, D. C., Virginia, Maryland, North Carolina and W. Virginia. Seested spent several months on the examining staff of the Executive Office before being employed by District #11. His experience also includes several years' "back office" work in members' shops.

Membership

From the low point of 2,180 in March, 1944, membership in the Association has risen almost without interruption to 2,863 on September 30, 1951. The latest figure compares with the peak of 2,977 reached in 1941.

Experience Standards

To open a barber shop a man has to be able to do more than give a customer a conversational hair cut and shave. He, and everybody who goes to work for him, has to attend a barber school and learn his trade.

You may know a barber who really aspired to be a butcher but who, as a confused young man, walked through the wrong door. The point is, wittingly or no, he went to training school.

But even in this enlightened age, a person can get in the securities business and not know a stock from a bond. Sure, he has to get a license and in some places has to put up some folding money. But no experience or training standards have to be met. And the same is true for anyone seeking a job in the securities business. Unless a firm, on its own, schools applicants, there are no tests.

(We are not forgetting Stock Exchange membership requirements or Exchange rules and regulations respecting registered representatives. NASD's concern is with the body of its membership for whom there have been no standards.)

NASD's membership growth and the increase in the number of registered representatives on its rolls the past few years mean that inexperienced people are being attracted to the securities business. Some people experienced in the business have, meanwhile, set up their own shops without real knowledge of all that may be involved.

A start had to be made somewhere to bring home to the membership the obligations they have as to an employee's capacity to serve customers. The Board of Governors considered, over a period of more than a year, a number of suggestions looking toward promulgation of experience standards for persons entering the business. Various kinds of rules were discussed, training courses studied.

It came, finally, to a decision that the Board should not endeavor to prescribe rigid examinations and other tests. Administratively, such a program would have been expensive and, considering the wide differences in size of members, kind of business done, etc, might be impossible of application.

Since no tailor-made plan could be developed for each and every member, the Board decided to draw up a Rule, the language of which would be general but would impress upon members their responsibility for the character and aptitude of employed persons.

The Rule, is to be submitted to members for adoption in the near future.

Stockholder Survey

There are more owners of corporation stocks in New England, in proportion to population, than in any other section of the country, a survey just completed by the Association discloses. Connecticut has the highest population density of shareholders, 8.8%, and then come: New Hampshire, 3.7%; Maine, 3.5%; Rhode Island, and Massachusetts, 3.2% each. Vermont ranks 13th in the list with 1.5% of its population owning stocks, which does not take into account the fact that one person may own two or more different stocks. The ratios are, therefore, not exact measurements of stock ownership among citizens of a State, but they indicate the relative positions of the various States in the matter of such ownership.

The survey covers 494 stocks in the over-the-counter market. Included were 40 banks, 60 insurance companies and 394 industrial companies. In all, the 494 have 1,923,980 stockholders. The survey shows that the number of owners of mutual funds now exceeds 1,190,000. These mutual fund owners were not covered in the State-by-State survey of stock ownership.

Leading States in numbers of resident stockholders, according to the survey of the 494 issues of stock: New York, 296,369; California, 278,642; Connecticut, 177,284; Massachusetts, 150,861; Pennsylvania, 134,232; Illinois, 119,728.

Summary of the complete totals as to the number of stocks and mutual funds covered in this survey, together with the respective complete totals as to the number of shareholders follows:

	Stocks	*Shareholders*
Bank	40	367,251
Insurance	60	250,438
Other	394	1,306,241
Mutual Funds	133	1,190,705
Totals	627	3,114,635

Residential distribution of stockholders by states follows:

	State Totals
Alabama	6,289
Arizona	4,407
Arkansas	1,459
California	278,642
Colorado	21,354
Connecticut	177,284
Delaware	5,157
District of Columbia	12,347
Florida	17,006
Georgia	16,373
Idaho	1,552
Illinois	119,728
Indiana	18,088
Iowa	18,100
Kansas	11,816
Kentucky	9,724
Louisiana	7,528
Maine	32,308
Maryland	39,759
Massachusetts	150,861
Michigan	40,305
Minnesota	34,870
Mississippi	1,615
Missouri	49,069
Montana	2,426
Nebraska	11,481
Nevada	2,097
New Hampshire	19,792
New Jersey	81,950
New Mexico	2,215
New York	296,369
North Carolina	16,131
North Dakota	1,581
Ohio	77,725
Oklahoma	2,837
Oregon	20,012
Pennsylvania	134,232
Rhode Island	25,655
South Carolina	6,935
South Dakota	1,993
Tennessee	6,201
Texas	35,935
Utah	1,535
Vermont	5,645
Virginia	13,383
Washington	21,239
West Virginia	3,688
Wisconsin	47,679
Wyoming	2,632

Who Makes Stockholders?

The answer to the question "Who Makes Stockholders?" is not a chicken-or-the-egg style conundrum.

Securities salesmen and dealers make stockholders. Period. And we happen to think that for a good many companies more stockholders are to be obtained if their stocks are in the over-the-counter market. The exceptions are, of course, the big companies with well-known names and reputations.

A study was recently made of the rate of increase in numbers of stockholders, 1950 versus 1940, on the part of over-the-counter stocks, leading industrial common stocks and lesser industrial common stocks on the New York Stock Exchange, and a batch of industrial commons "unlisted" on the Curb.

The first sample includes 90 leading over-the-counter industrial common stocks whose reported holders were as follows:

	Stockholders		
Issues	1940	1950	Increase
80 showing increases	97,572	191,056	96%
10 showing decreases	27,836	23,064	—
90 total	125,408	214,120	71%

Thirty leading industrial common stocks on the "Big Board" had this record:

	Stockholders		
Issues	1940	1950	Increase
23 showing increases	1,747,036	2,233,872	28%
7 showing decreases	525,405	446,513	—
30 Total	2,272,441	2,680,385	18%

Sixty-two industrials on the "Big Board" — companies with (in 1937) $1,000,000 to $5,000,000 assets—had this experience:

	Stockholders		
Issues	1940	1950	Increase
31 showing increases	69,472	106,344	53%
31 showing decreases	104,742	86,121	—
62 total	174,214	192,465	10%

Eighty industrials on the Curb admitted to unlisted trading had this record:

	Stockholders		
Issues	1940	1950	Increase
48 showing increases	93,235	144,689	55%
32 showing decreases	71,271	47,370	—
80 total	164,506	192,059	17%

The over-the-counter stocks in the above tabulation were selected by taking those of sizeable aspects for which the manuals have shown the number of reported holders with some consistency over the years. The leading New York Stock Exchange stocks are the industrials contained in a recent list of 50 "leading" stocks published by "The Exchange." The third and fourth samples contain all the issues in the categories mentioned for which the manuals showed holders in 1940 and 1950 and which were on the respective exchanges during the entire ten years.

None of the 90 over-the-counter stocks had as many as 10,000 holders while none of the 30 leading Exchange stocks had as few as 10,000.

Significant, though, is the fact that the 90 o-c stocks averaged out with a ten-year increase in holders of 71% against an 18% increase for the leading Big Board issues. And but a 10% increase for the smaller listed companies of ten years ago.

There is more than a suggestion in this study that the "listed" companies tend to compete with themselves for the available supply of stock purchasers.

However, we do not contend that the above study is necessarily conclusive on any points of argument that could be stirred up by interpretation of the figures. The indications on one point, though, seem pretty compelling: smaller companies are going to win more stockholders in the market where securities are merchandised rather than in the auction market.