

PUBLISHED BY THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., WASHINGTON, D. C.

"Greed"

"In our opinion, based upon our knowledge of the securities business, the respondents could not have been so naive as to have been unaware of what was happening in these accounts. We feel that they were motivated by greed and churned these accounts for their own gain and contrary to the best interests and welfare of the customers."

The quotation is from a decision of a District Committee, affirmed by the Board of Governors, in a complaint case against a member and his registered representatives growing out of alleged (and admitted) over-trading of mutual funds for seven accounts.

The stern language the District Committee felt called upon to use in the case was prompted by testimony it heard to the effect that over a period of ten years the seven accounts [all aged people] had realized and unrealized losses in the amount of \$112,600 while the firm and its representatives derived \$127,800 in income from the accounts.

Following are other excerpts from the opinion of the District Committee:

"In a great many instances, in the seven accounts for which exhibits were presented, the mutual fund which was purchased by a customer had been sold previously by another customer, with the full spread between bid and asked price being realized by the respondents The Committee finds it incredible that individuals of the respondents' comprehension and experience [an average of over 30 years] could be unmindful of the injurious effects on the customers' accounts from the switching of investment companies' shares.

"It is well-known in the industry, and was acknowledged by the respondents, that investment companies' shares are not instruments for trading. One of the principal reasons for acquiring such shares is to gain the benefit of management of the funds invested. In-and-out trading superimposes [itself upon] such management. There is little justification for disturbing such investments unless up-

(Cont'd Page 4, Column 1)

GOVERNOR



William H. Potter, Jr.

When he came on the Board and was asked to send along a biographical sketch and picture of himself, Boston's Bill Potter complied as follows: "Bachrach have proof of a not too recent (and therefore flattering) photograph. As to biography, I made my start in 1919 with the First National Corporation, which was organized in 1918 by the First National Bank of Boston to do an international letter of credit business and develop a market in prime bank acceptances. During the 20's, the organization moved into the securities business, and in one corporate form* or another has so continued. I am presently a senior vice president, director and member of the Executive Committee. I served on the [NASD] District Business Conduct Committee from 1942 through 1948 and as Chairman . . . and then moved to the chairmanship of the District Committee for 1949 and 1950." *The present corporate form: The First Boston Corporation.

Bill Potter is Chairman of the Finance Committee and a member of the Executive Committee.

Washington Meeting

A meeting of the Board of Governors will be held in Washington, D. C., October 11-13.

Acts Amendments

An effort that began with great promise of success thirteen years ago seems at long last about to bear fruit. The reference is to amendments of the Securities Acts in keeping with experience (now of more than 20 years) under them.

At this writing, a Senate-passed series of amendments, all supported by the business and the SEC, awaits action in the House. If the House approves the proposals, they should encounter no difficulty with the President since, in his economic message, he advocated changes in the Acts which would make them more workable.

Generally, the amendments adopted by the Senate:

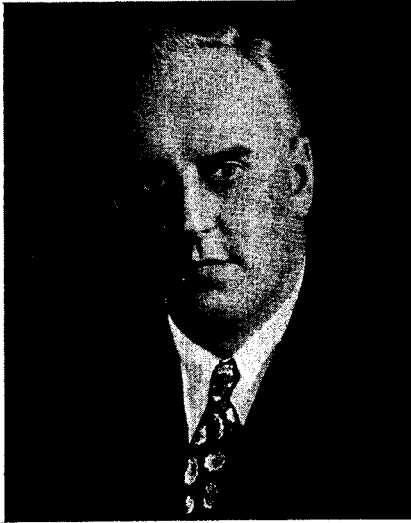
1. permit written offers during the "waiting period" but continue to make unlawful sales, contracts to sell and contracts of sale before registration statements become effective;
2. reduce to 40 days from one year the time within which prospectuses must be delivered;
3. where a prospectus is used for more than nine months after effective date, the information shall be as of a date within sixteen months of its use;
4. increase to \$500,000 from \$300,000 the exemption of issues from registration;
5. provide for continuous registration of open-end investment companies.

Edward C. George, Chairman of NASD, in a statement February 3 before the sub-committee of the Senate Banking and Currency Committee, advocated adoption of these amendments, saying:

"It seems to me that what this legislation, if enacted, will do, is broadly, two things. First of all, the original intent of Congress, at the time of passage of the Securities Act of 1933, will be realized to a much greater extent in that accurate information with respect to prospective issues of securities to be offered will be broadly disseminated to prospective purchasers prior to any time of legal sale; and, secondly, this legislation will preserve the basic protections to investors written into the Securities Act of 1933 as

(Cont'd Page 4, Column 3)

GOVERNOR



Frank B. Reid

His fellow Governors recently discovered that Frank is pretty expert at reading hands. How much of a competitive advantage this gives him over other Cleveland firms isn't clear, but it ought to give him a head start where the ladies are concerned, anyway. His firm is Fulton, Reid & Co. He's been with his present associates in business since 1928 — under the firm name Maynard H. Murch & Co., until it was succeeded in 1950 under the present title. Frank is a former Chairman of the Northern Ohio District of IBA and a former Chairman of the Ohio NASD District Committee.

Frank's big job this year: Chairman of the National Quotations Committee.

Believe It, or . . .

A member who has had an SEC man, then an NASD man and then a State examiner "drop in" his office finds it a little hard to believe that he isn't the victim of some sort of a conspiracy.

"Those guys must put an 'X' on the door as a come-on-in-the-water's-fine notice to others doing the same work," would pretty well sum up how a dealer feels after such a multiple visitation.

And, believe it or not, something has been done about such signs of eager-beavering. The NASD has long wanted to work out an arrangement to prevent such incidents; the SEC has wanted to do so also and the Stock Exchanges and the State Commissioners are just as interested in doing away with unnecessary and useless duplication of examining work as anyone else.

So, representatives of all of these bodies have had meetings and correspondence

Ugly Plugs

Among perennial problems that have presented themselves ever since the Association got under way is the question of members' advertising the fact of their membership in the Association.

It will be a long time before some firms agree to identification with any outfit; there are others with, perhaps, a different sort of pride who are *not* unwilling to turn a proper connection to fair business advantage, all things being equal. There are still others who would join anything if they could generate a piece of business by so doing.

Well, the Association is open to all comers so all shades of taste can show up in how to go before the public in "ads." And of late the public manners of a few are what might be called brisk. The Association name gets linked, in one way or another, with some effervescence not commonly identified with accepted standards of advertising securities.

The result is that the Board of Governors had a committee look into this subject with a view toward coming up with an answer that might forestall trouble and also not affect sound practices of the vast body of the membership.

The Committee recommended, and the Board adopted, the following:

1. Members may not use the name of the Association in any advertising dealing with a specific security or a type of securities, this prohibition applying not only to publication, radio and television advertising, but to letterheads and literature.
2. "Red Book" advertising and the like, which lists membership of firms, is authorized; and
3. Members can have "Member of National Association of Securities Dealers, Inc." on their office doors.

The Board, aware that members may have a supply of letterheads and the like with membership listing thereon, specified that the prohibition against advertising membership in this manner would not be effective until January 1, 1955.

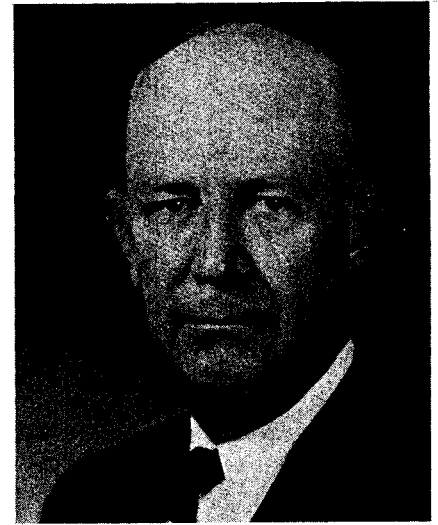
What's Happened To—

The defense for over-reaching on the part of a salesman: "He had to go 85 miles out in the country, then locate the customer out in the fields and he didn't get back to the office until after dark."

lately to work out a system whereby duplication can be avoided.

From here on in, let's hope there will be few occasions in the future for firms to complain about examiners of regulatory bodies holding a relay race in their offices.

GOVERNOR



G. Price Crane

Price Crane is a native of New Orleans where he has resided all of his 48 years. Before we go any further, the record should show that he is one of a family of twelve children. He entrusted his education to the Jesuits and graduated from Loyola University in 1930. He recalls with a smile that one of his first jobs in business was as a stenographer with the New York Central Railroad. Price entered the securities business in 1936, as a salesman with Moore & Hyams. In 1941 he formed Glas & Crane; in 1951 he merged the firm of G. Price Crane with Weil and Arnold to form Weil, Arnold & Crane, which was succeeded in 1952 by Arnold & Crane. He served on the NASD District Committee before coming to the Board of Governors where he is now in his first year. He's been appointed a member of the Legislation Committee.

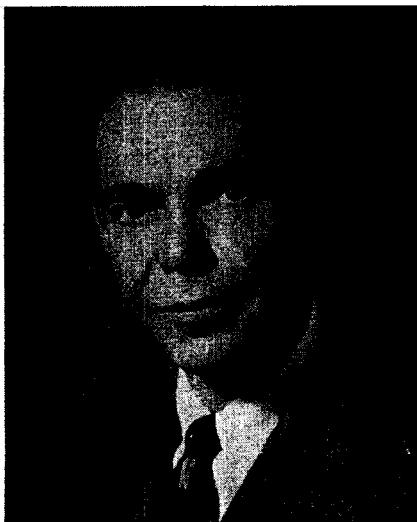
Membership Up, Up

After levelling off last Fall, membership in the Association resumed its climb late in 1953 and the trend has continued to the present.

At the end of February, membership amounted to 3,054, a new high record. That figure represented a net gain of 6 for the month, of 14 for the first two months of the year and of 48 for the year-to-year comparison.

Perhaps the most interesting development is the increase in New Jersey members. At the end of February there were 104 members in that State against 83 a year earlier. That gain of 25 per cent contrasts with the national increase of 1½ per cent. New York City showed a gain from 863 to 871.

GOVERNOR



H. Warren Wilson

"Red" Wilson still has the adornment that earned him his nickname—which is as good proof as any that 30 years and more in the securities business haven't taken too great a toll of this new Governor. He knocked around for a few years after graduating from Dartmouth in 1918, but Wall Street got him in 1922 when he joined Dillon, Read & Co. Between 1927 and 1944, he was with Edward B. Smith & Co., and Smith, Barney & Co. He went with Union Securities in the latter year and is presently a vice president and director. He served three years on the New York District Committee, two as Chairman. If any District Chairman had a tougher tour of duty, he has "Red's" unbounded sympathy. As a Governor, he was a "natural" for the National Business Conduct Committee and his long experience in the underwriting field made him also a logical candidate for the Legislation Committee.

Obituary

Frank L. Scheffey, former Secretary of District Committee No. 13, died last February in New York. He was 71. Upon his retirement from NASD, Mr. Scheffey was associated with Thomson & McKinnon until shortly before his death. Born in Pottstown, Pa., Mr. Scheffey went to work in Wall Street in the early 1900's. He became a partner of Callaway, Fish & Co., served as Secretary and Treasurer of the New York Group of the Investment Bankers Association for many years and was deputy managing director of the Investment Bankers Code Committee. When NASD was formed, he became Secretary of the District 13 committee (New York, Connecticut and New Jersey).

"Instructive, Interesting"

Newton P. Frye of Chicago last January completed a three-year term of service on District Committee No. 8. He was chairman in 1953. The District covers Illinois, Indiana, Iowa, Michigan, Nebraska and Wisconsin—second largest, membershipwise, of the fourteen Districts.

In saying farewell to Committee members Frye spoke quotable quotes:

"This experience has been instructive, interesting and enjoyable. I have been impressed with the ability, sincerity and willingness to work of the various Chairmen and District Committee members with whom it has been my privilege to serve. There has never been any doubt of their purpose to serve our industry and our members in a constructive manner. I sincerely feel that their combined efforts have improved industry practices to the benefit of members and the public alike.

"During my tenure I have heard general criticism of the NASD. I presume there is always room for criticism, particularly if it results in NASD and industry progress. It is significant, however, that such conversations never seem to attach themselves to the basic fundamentals of NASD, its various committees, staff or officers. I believe everyone in the industry accepts, although perhaps too lightly, the fundamentals of NASD, the honesty of purpose and the fine objectives to which all of such personnel is dedicated and devoted. It is apparent, members do not fully appreciate the values of the day-to-day services—apart from self-regulation—and the contribution of such services to the well-being of the industry. In my opinion, current membership thinking stresses too much the disciplinary functions and pays far too little attention to the other constructive contributions.

"If the fundamental purposes of the Association, self-regulation, plus constructive aid to the industry and its individual firms are accepted, the conclusion must inevitably be reached that NASD has a record of achievement, of salutary results and of dedicated service. It is important that this fine record of accomplishment be carried forward on as high or higher level. To do this, it is urgently necessary to continue to draft to NASD service men of high caliber, experience and dedication. This, plus the necessity, in my opinion, of having each of our NASD District Committees representative of all segments of our industry, small and large firms, underwriting and exchange firms, etc., seems to me a basic must for NASD service in the future."

GOVERNOR



Harold E. Wood

The Twin Cities sent Harold Wood of St. Paul to the Board in January, 1953. His intense interest in the welfare of the business he's in, his home town and international affairs is evidenced by the active part he has taken over the years in organizations with those responsibilities. A list of them in detail might embarrass him and serve merely to belabor the point but, as examples, it could be reported that he's President of the Greater St. Paul Community Chest and Council, former President of the Association of Commerce, ex-Chairman of the IBA Minnesota group, member of Foreign Relations councils of St. Paul and New York. A native of North Dakota, he graduated from the University of Minnesota in 1918.

Harold heads the Information Committee this year.

Who owes whom?

Uniform Practice committees of the Association are daily resolving problems for members. In a report to the Board of Governors recently, Harold C. Patterson, outgoing chairman of the UPC, cited the case of a dispute between two members relating to the obligation of the seller to obtain a dividend for the buyer, where the seller was not the registered holder. The Committee, Patterson reported, ascertained that the buyer had the certificate in his possession in time to effect transfer and, therefore, the buyer had no claim upon the seller for the dividend. (See Sec. 49 (a) Uniform Practice Code.) The facts also disclosed that the seller had used his best efforts to collect the dividend for the buyer."

GOVERNOR



Arnold Grunigen, Jr.

Arnold Grunigen wasn't yet sixteen when he started in the securities business with E. H. Rollins & Sons in San Francisco. The year he launched his business career was 1917 and his first job: office boy. When he left Rollins in 1931 he was sales manager. He spent eighteen years with Weeden & Co., and joined his present firm, J. Barth & Co., in 1949 as sales manager. Seldom at a loss for words, whether the subject be obligations of a good Christian or the opportunities of a salesman who will work, Arnold brings to every undertaking an enthusiasm and a vigor that insures accomplishment of desirable ends. He will be serving on the National Business Conduct Committee and the Association's Information Committee.

("Greed" from Page 1)

setting events of a radical nature occur." Penalties were imposed as follows:

The firm was suspended from membership for sixty days; fined a total of \$3,500; and censured;

One registered representative was suspended for one year; was named a cause of the member's suspension; fined \$2,000; and censured;

A second registered representative was suspended sixty days; was named a cause of the member's suspension; fined \$1,500; and censured;

A third registered representative was named a cause of the member's suspension and censured.

In addition, costs of \$456 were assessed against the member.

Mark-Up Practices

Some interesting statistics were compiled at the 1953 year-end from records of examinations made of members during the year.

Statistics, like children, should be quietly assembled. They should speak their pieces when called upon to do so and then retire. They lie only second-handedly.

With that in mind, let's take a look at these mark-up statistics and let them speak for themselves.

In the first place, 1,053 examinations were made in 1953. (If one interpolation is permitted for purposes of clarification, that figure is something more than one-third the membership.)

The examiners computed mark-ups on approximately 18,000 transactions of members.

The mark-up on 42.1 per cent of these trades did not exceed 3 per cent. On another 40.1 per cent, the mark-up ranged between 3 and 5 per cent. Thus, 82.2 per cent of the transactions were at mark-ups of not more than 5 per cent.

Men At Work!

"Those engaged in over-the-counter trading recognize no physical confinements for their operations. If a buyer or a seller cannot be found in the immediate community, he is sought out in all likely places. If a prospect is found but there is a gap in the price, the effort is made forthwith to compose the difference. Over-the-counter dealers merchandise securities, carrying them to the ultimate consumer.

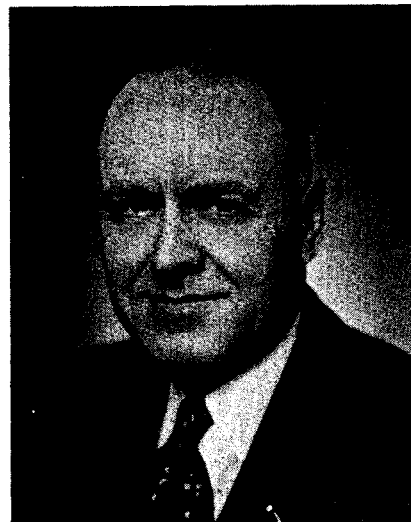
"It is also characteristic of the over-the-counter market that many of those who engage in it take the business man's risk in the conduct of their business. They inventory securities the same as any merchant. They are prepared to buy or to sell at a price at any time. They do not wait for a buy order or a sell order to meet by happenstance in their own offices. The existence of an order to buy or to sell is enough for the over-the-counter dealer to find the opposite of one or the other. Over-the-counter markets are decentralized and diffused to such an extent that even in the smallest community . . . a . . . market [exists] for securities native to the area."

NASD News
August, 1943.

NASD News

Published periodically by the Board of Governors under the supervision of the Information Committee,
HAROLD E. WOOD, *Chairman*
Editor, JAMES P. CONWAY

GOVERNOR



Oliver J. Troster

Oliver J. Troster, familiarly known as "The Colonel" to dealers throughout the country, is serving his first year of a three-year term on the Board of Governors. At the first meeting he attended he was given a job for which his long experience in the securities business eminently qualifies him: Chairman of the National Uniform Practice Committee. "Ollie," as he signs himself in personal notes, earned his military monicker in the first World War, but he was given his share of assignments in World War II and post-war years, as well. The list of his active civic, religious and business connections over the past 25 years is testimony of his energy and his devotion to worthy causes.

"Ollie's" firm is Troster, Singer & Co.

("Acts Amendments" from Page 1)

originally intended."

Mr. George said what several of his predecessors also had said in appearances before congressional committees since 1941. In that year, the securities business presented to Congress numerous proposals for amendments to the Acts. These grew out of many months of conferences with the SEC which also submitted to Congress in that year a series of its own amendments. World War II estopped serious consideration of these by the Congress. In the interval, conferences have been held with Commissioners of the SEC and its staff. During 1953, these finally resulted in agreement on the nature of amendments listed above. Senate passage followed.