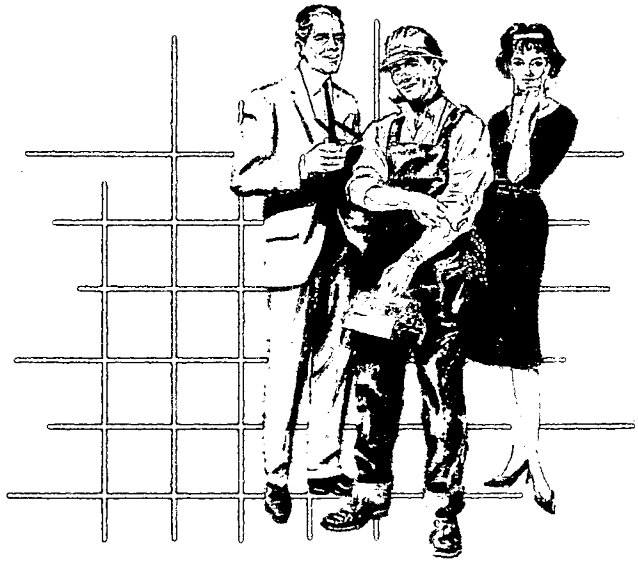

THE BOOM IN SHAREOWNERSHIP

How Is The Public Handling The Complexities of Investing?

Remarks by G. Keith Funston, President, New York Stock Exchange, before Denver, Colorado Chamber of Commerce, in connection with Colorado Centennial Celebration, Friday noon, April 24, 1959.

QUOTATIONS FROM THE TEXT

U. S. enterprise has emerged with a new set of owners—America's middle-income millions. . . . Direct ownership, with all its benefits and uncertainties, has been taken out of the drawing rooms of the few, and brought back to the millions who were willing to share its responsibilities.

Critics wonder whether the broad mass of people can really be entrusted with the responsibilities of ownership? Can they handle the complexities of investing on a sound basis? Can they make proper use of that mechanism called the marketplace?

These questions are as old as the nation's history. They were raised once about the right to vote, about the right to worship and about the right to receive an education. And the Exchange's reply, in the context of today's economy, is firm and unhesitating. . . . To doubt that people can handle the risks of ownership, is to doubt that they can handle any other part of their heritage.

Today's market has little similarity to the past. Most people are buying stocks for cash, and using credit sparingly. They are deliberating carefully before committing themselves. They are investing for the long-term. And they are concentrating on seasoned securities and often re-investing dividends.

Nevertheless, there has also been a tendency by some to ignore the necessary cautions, to hope blindly for quick profits, to take unnecessary chances and to fall for the blandishments of the phony promoters.

The stock market is no place for the casual or the careless, the get-rich-quick devotees, or the people who can't afford the risks. The nation's investors—particularly the minority new to shareownership—should heed the cautions and make a careful assessment of their investment aims and objectives.

Sound American businesses will in the future continue to grow, and their shareowners will have the chance to prosper with their companies. I have the abiding conviction that a person who gets the facts and uses good judgment can this very minute find many opportunities in the market to make investments which will appreciate in value in the years ahead.

We believe we have done a great deal to encourage millions of people to consider their investment opportunities and to handle them soundly. In the years ahead we intend to spell out those opportunities as clearly as we can. We hope that the investment process will recommend itself to many more millions of people. Our capitalistic society needs their direct identification as capitalists.

No Chamber of Commerce is ever likely to be accused of practicing too much restraint. But even a hurried visitor like myself can appreciate the wisdom of one traveler who not long ago said: "Colorado is the only state that is better than even its Chambers of Commerce claim it is. You may shower verbal confetti on the subject until you believe you are witnessing a Lindbergh parade, and justice for Colorado is still lacking."

May I say simply how completely I subscribe to that view. Here is a region that was once called "the Great American Desert." It has been transformed over the past century by a people who became expert miners; who pushed roads and rails over incredible barriers, and who turned millions of barren acres into rich crop lands.

Even though I was raised in a neighboring state — South Dakota — I have always been awed by what I've seen and read about Colorado, and this adds to the pleasure of being with you. What your state has achieved, it seems to me, is a sort of explosion — and it cannot be measured in terms of population or production. Rather, your real accomplishment has been in translating an extraordinary economic growth into individual well-being.

Fortunately for all of us, the Colorado experience, in one form or another, has been occuring throughout America. As a nation we have by no means seen our last frontier. Nor, as Walt Whitman once wrote, have we come through centuries, heroisms and fables just to come to a halt today. This noon I'd like to discuss one such present-day "frontier" — one that is reshaping America. It is the changing pattern of U. S. ownership which is reflected in the nation's active and growing family of shareowners.

U.S.* *need have no fear, in face of marked shareowner growth, that public can be entrusted with the responsibilities of ownership

The astonishing growth of our corporate enterprises in recent years has been accompanied by a development that is equally remarkable but much less understood. It is the mushrooming of shareownership to an extent that has prompted at least three phenomena.

First, U. S. enterprise has emerged with a *new set of owners* — America's middle-income millions. Largely as a result of this it has emerged, also, with a *new name* — "People's Capitalism." In increasing numbers, people from every occupation and income group have become the direct owners of the country's industrial might. Finally, we have emerged with what are, ostensibly, a *new set of problems* — posed by critics who are often well-meaning. These critics wonder, for example, whether the broad mass of people can really be entrusted with the responsibilties of ownership? Can they handle the complexities of investing on a sound basis? Can they make proper use of that mechanism called the marketplace?

The Stock Exchange, let me say, is no stranger to these questions. In one form or another they are as old as the nation's history. They were raised once about the right to vote . . . about the right to worship . . . about the right to receive an education. And the Exchange's reply to these questions, in the context of today's economy, is firm and unhesitating. Certainly the American people can handle the responsibilities and risks of ownership. More than that, the really unique thing about our economy is the wonderful opportunity for the broad mass of people to take advantage of those responsibilities. In short, the Exchange believes that the trend towards ownership must be encouraged among all those able and willing to take the sensible risks of investing. To doubt that people can handle these risks, is to doubt that they can handle any other part of their heritage.

At the same time, I would acknowledge that concern over the public's participation in the stock market is being voiced with increasing frequency these days. And I would endorse the view that when the heads of 23 million American households discuss the market each week . . . and when the market news moves regularly from the inside to the front pages, it is time to take a realistic look at what is occurring to shareownership in America. And it is time, also, to explore some of the problems inherent in the changes that are underway.

Broader ownership program mapped with painstaking care; important investment techniques developed in recent years

First, however, let me mention a page out of recent history.

Early in the 1950's the Stock Exchange launched a broad educational program. It was designed to spell out, with painstaking care, the opportunities, the risks and the rewards that go with investing. By the standards of other industries our program was modest indeed. But for our own community it was a significant departure. And in the perspective of the years our program has already done a great deal to change the face of American capitalism. In the years to come we hope our efforts will contribute a great deal more.

Three factors motivated the Exchange's program. First, the pent-up demands of a war-time economy, and the needs of an expanding population called for staggering amounts of corporate growth money. It took no unusual vision to see that many of the dollars required could best come from one place — the bulk of the American people who were moving up in income, and up in living standards.

Second, we had the absolute conviction that the average man had much to gain from a sound program of investments that included stocks along with government and corporate bonds, and cash savings. We were much impressed, for example, with research that illuminated our "target" areas — research that showed some 2.5 million non-shareowning families earning $10,000 per year or more; followed by 4.2 million non-shareowning families in the $7,500 to

$10,000 bracket; and then a broader base of 16.3 million non-shareowning families with incomes of $5,000 to $7,500.

Finally, in terms of the Exchange Community, we recognized that as a national institution we could only thrive so long as we were able to attract and assist a mass of people who needed our services. This meant, in turn, providing a market broad and liquid enough to meet the needs of every investor.

The concept of a liquid market, I might add, is no play on words. The man in Denver who expects to sell a share of his stock at about $40, and finds his market order has been executed at $35, is not going to be much impressed with the market's liquidity. But, when his order is executed at the price he expected — or within 12½ cents of the last sale — then he has acquired substantial confidence in the market's orderliness. Well, our studies last year show that 82 per cent of *all* round lot transactions on the Exchange were executed either at variations of 12½ cents a share from the previous sale—or at no change at all.

This kind of a market never just happens by chance. It is achieved only by planning and hard work, by bringing literally millions of people — not just thousands — to the market, by serving them well, and by demonstrating each day that the market itself is fair, orderly and open.

When our educational program began, the first thing we did was attempt to strip away the mystery that for too long had surrounded the investment process. Through every medium within our budget we set out to make the language of investing commonplace. In advertising, films and millions of pieces of literature, we spelled out the pre-requisites that should guide the investor. They have become a litany with us: Have a steady income and cash savings before entering the market; understand and tailor the risks to what you can afford; determine your objectives in terms of the Exchange's wide list of stocks and bonds; concentrate on the long-term get the facts; and seek advice from reputable brokers, such as Member Firms of the New York Stock Exchange.

As a corollary to this we have pressed our continuing war against the tipsters, phony promoters and get-rich-quick artists.

On other fronts, the "rights of shareowners" were hammered home and the Exchange Community moved to strengthen those rights. The requirements for a company to be listed on the Exchange were raised — and so were the criteria for remaining listed.

Today, every Exchange-listed company furnishes periodic reports to shareowners; every listed common share carries the right to vote — and every listed company is expected to facilitate that right by sending out proxies. Just last month, for example, our Board of Governors decided that any company that fails, by the end of 1961, to embark on a regular program of proxy solicitation will be considered for delisting. There were only 28 such companies last year out of 1100.

Historical changes, for the most part, occur very subtly. Therefore, it may come as something of a surprise that today's interest in shareownership stems from techniques that were either born or developed more fully within the last six or seven years. Employee stock purchase plans and the shares of investment companies, for example, have jumped to greater prominence. Some 15,000 investment clubs have sprung up. Nationwide legislation making it easy to give stock gifts to youngsters has been enacted in 45 states. Incidentally, Colorado was the second state to adopt this progressive legislation. The Exchange's Monthly Investment Plan has dramatized the idea that people of modest means can invest relatively small amounts on a regular pay-as-you-go basis.

What has happened, in short, is that direct ownership, with all its benefits and uncertainties, has been taken out of the drawing rooms of the few, and brought back to the millions who were willing to share its responsibilities. In the process, the United States has demonstrated two things. One is that it is *private* enterprise which unquestionably creates the most wealth with the greatest efficiency. The other is that the Russian argument about a class struggle is utter nonsense. A noted economist. Frederic Dewhurst, pointed out several years ago that, "of all the great nations—the United States, the one that clings most tenaciously to private capitalism has come closest to the Socialist goal of providing abundance for all in a classless society."

Data indicate most investors proceeding on a sound basis: but there are disquieting signs in current market

What actually has happened to our shareowning family?

We know that between 1952 and 1956 the number of individual shareowners grew by one-third to 8.6 million. Looking behind these figures, we know, also, that shareownership has broadened more than just numerically. It ranges, today, across every age and income group, every occupation and geographic area. This growth, and all it implies about a democratic America, incidentally, has impressed no one more than the editors of a newspaper published in Moscow. With the tremendous inventiveness that Pravda so often demonstrates in camouflaging the truth, the newspaper has explained to its readers that management in America is trying to increase shareownership "in an attempt to tighten the screws of exploitation and to make the working class more submissive to capitalism."

America's shareowners are not likely to agree — and within a short time we will have more news for Pravda. Work is now being completed on the Stock Exchange's 1959 Census of Shareowners. It is the largest research project the Exchange has ever undertaken. And while results are by no means final, it is evident from preliminary runs that stock ownership has become a fact of life for additional millions of Americans. The over-all rate of shareowner growth, in fact, is proceeding more rapidly than the Stock Exchange's conservative estimates of the past.

This development, it seems to me, has to be coupled with still another one: who is in the market at particular periods — and why? Or, put differently, how is the average American approaching the serious business of investing — and how is he using the facilities of the marketplace.

Here we find a picture that on the whole is very encouraging. Most people are buying stocks for cash, and using credit sparingly. They are deliberating carefully before committing themselves. New investors, for example, are likely to take six months from the time they first consider investing, to the date of their first purchase. They are investing for the long-term. And they are concentrating on seasoned securities and often re-investing dividends.

By the same token, however, the investing picture today is not one of unalloyed brightness. There are several disquieting signs and I would like to discuss these with you for a moment.

In our recent studies, we have unquestionably observed a much greater emphisis on short-term objectives than existed six months or a year ago. There has been a noticeable tendency to buy low-priced issues — largely because they are low-priced. This activity does not represent a particularly large dollar volume of shares traded — but it does reflect a "let's shoot the works" state of mind. It reflects an undue amount of amateur speculation in low-priced shares. And finally, this activity has been fanned by much greater talk about tips and rumors, and that most misleading of all phenomena, "the one that got away."

Disclosure policies and fair and orderly NYSE markets can protect an investor against many things — but not against himself

We are witnessing among some investors, in short, what one of our Member Firms recently called an "almost festive air in finance." And it is precisely now, when so many people seem caught up in these festivities that we are apt to forget some of the homely, old-fashioned virtues, like moderation and prudence, and some of the old-fashioned truths, like the law of gravity and the law of diminishing returns.

In view of this there is great merit in re-emphasizing two things: the precise functions and responsibilities of the Exchange Community, and more important, the responsibilities an investor owes himself when he approaches the market.

It may seem strange, but it is nonetheless true, that many people still do not have too clear an idea of either the Exchange's role and how it operates, or what it can and cannot do. Our problem, I am afraid, is akin to one the late baseball umpire Bill Klem used to describe. A prominent Midwest newspaper was convinced that the dignified Klem was deliberately giving the home team a bad time. The paper therefore launched on anti-Klem campaign. Several weeks later a fan in the stands witnessing a game that Klem umpired, died of acuate indigestion. The newspaper promptly ran this wild headline: "Klem Kills Innocent Man."

Thus it is with the marketplace. We must constantly reiterate the Exchange's precise function. The Exchange cannot, for example, guarantee an investor a profit, or protect him from loss. It cannot regulate stock prices. It does not own, buy or sell the shares traded on the marketplace. It cannot exercise any control over the four thousand publicly-owned companies which are not listed thereon, or over the tens of thousands of securities salesmen who are not with our member firms.

But it can and does insist, for its eleven-hundred listed companies, on disclosure policies that give investors needed data. It can and does work effectively to strengthen stockholder rights by providing a corporate vote and a convenient ballot. It can and does bring to the marketplace a growing supply of seasoned issues, exemplified by the more than five billion shares now listed. And finally, the Exchange can, through its Member Firms, see that an investor who does business with them obtains accurate information and responsible guidance. Like any human being, a broker is not infallible. But if he is one of the 22.000 registered representatives of our Member Firms, we can—and do—insist that he abide by a code of business ethics that is unmatched anywhere.

By the same token the Exchange can see to it that transactions made thereon are publicized on its nationwide ticker system. It can work to maintain fair and orderly markets where bids and offers are made by open outcry and price spreads are held to a minimum. And it devotes enormous effort to keeping this vast operation under constant surveillance.

I have undertaken this quick review to spotlight the one critical thing the Exchange cannot do: *it cannot get inside the heart and brain of the investor, or decide for him how he ought to handle his investment program.*

A broker will, for example, strenuously urge a customer to define and understand reasonable investment objectives. But many a broker comes across the customer who insists on throwing away the rule book. "All right," this customer says, "I know what I'm doing. My object is to make a fast turn." Whereupon he pours his money into some unproven security because it bears a "space age" label. If by any chance the price of the stock goes up, he feels himself to be a genius. If — and this is more likely — the price of the stock goes down, he is most apt to look around for someone other than himself to blame. Only last week a woman wrote me in high dudgeon because an unlisted stock selling for $1⅝ a share looked like it was not going to reach the $5 she expected within a year so she could buy a new piano. She was furious. She felt our cautionary program had caused the price of the stock to go down. But the lady's ire was misdirected. She should look into the mirror because she herself admitted she bought the low-priced stock in a company that had been in business for years but never paid a dividend.

So, to that first strong warning about determining proper "objectives" the broker and the Exchange add several more.

First, a stock certificate isn't simply a piece of paper. It represents a company — and the stock isn't any better than the company and its prospects.

Second, just because an industry is glamorous or prosperous, it can't be assumed that every company in the field will fare the same way. The glamour may rub off all too quickly, leaving the investor with little cash, and worse memories.

Third, equating low price with high value is an easy trap to fall into. Any good broker can certainly draw up a list of low-priced issues containing both cats and dogs, and shares of good value. And equally, he can furnish a high-priced list that includes both good buys and stocks that he feels are over-priced.

Finally, to drive home these messages, we can underscore the fact that there are some people who are plainly better off — financially and emotionally — by putting their money into bonds, or leaving it in the bank.

The stock market is, in a word, no place to get rich quick. We have said this often in the past — and we will repeat it often in the future. We can trumpet this message up and down the land — but I've discovered no pill to prevent a man from dreaming that somehow he can pull it off and strike it rich. Yet, the odds against his doing so are enormous.

One more thing we can do is inveigh against the phony promoters on the fringe of the securities industry who prey on the gullible with their siren songs. Here, again, most investors have been alerted. Many have been spared. But a good number have not. And with every case that comes to light — it is clear once more that a man can be protected against many things, but not against his own avarice.

To bring all this into perspective, may I add that today's market — with its stress on long-term investing and buying for cash, with its high margins and modest use of credit, with its emphasis on the purchase of stocks in well-seasoned companies, and buttressed by the presence of institutional investors — bears little similarity to the market of thirty years ago. Today's market is not a flimsy house of cards. On the contrary, it is a carefully constructed dwelling that reflects the prosperity and well-being of its owners — the American people. Lest this reference be misconstrued as a comment on the *level* of the market, I hasten to add that I don't know whether stock prices are too high or too low. A current judgment must be made, not on the basis of the "averages," but by considering individual issues. And only history will tell us how correct those judgments have been.

I know, finally, that the stock market is no place for the casual or the careless, the get-rich-quick devotees, or the people who can't afford the risks. The nation's investors — particularly the minority new to shareownership — should heed the cautions and make a careful assessment of their investment aims and objectives. The failure to do so can only lead to disappointment. And the disappointment will be doubly difficult to bear because we can be sure of one thing: sound American businesses will in the future continue to grow, and their shareowners will have the chance to prosper with their companies. For I have the abiding conviction that a person who gets the facts and uses good judgment can this very minute find many opportunities in the market ahead to make investments which will appreciate in value in the years ahead as the nation grows.

This is the conviction, you will recall, that prompted the Exchange to embark on its broader ownership program in the first place. That conviction remains unchanged. We believe we have done a great deal to encourage millions of people to consider their investment opportunities — and to handle them soundly. In the years ahead we intend to spell out those opportunities as clearly as we can. We hope that the investment process will recommend itself to many more millions of people. Our capitalistic society needs their direct identification as capitalists.

Government's role in the investing picture: it must fight inflation and revise tax structure to encourage sound investing

In what I've said thus far, I've eliminated one place we ought to look for responsible performance: the Federal government. The investment climate, and the pressures on the market, certainly reflect the way that people think the government is — or is not — doing its job.

Two quick illustrations will suffice. The fight against inflation is perhaps the best advertised in recent years. Most people have begun to appreciate fully that rising costs, without a corresponding rise in output, work a cruel hardship on everyone. Inflation is morally wrong, and economically unsound. And it won't remain gradual, in the words of C. Canby Balderston, the vice chairman of the Federal Reserve Board, "any more than a lion cub will continue small and harmless."

Recognizing this, more and more people have purchased common stocks which historically have tended to keep pace with living costs. In doing so, they have added to the upward pressure on the market, and the downward pressure on government bonds.

What is the solution? A distinguished member of the financial community, Aubrey Lanston, puts it very bluntly. "I hope that we will find," he said, "that there are enough people in this country who care enough about what happens . . . to scream the house down . . . so that Congress will not be tempted to be lax in its number one duty. This is to repair the condition of the government's finances and to make clear that the credit of the Treasury will be maintained — by promoting a stable currency."

Government's next responsibility, it seems to me, is to create a tax structure that doesn't operate to prevent qualified investors from entering the market at reasonable prices. Charles Kettering once said that "one of the things we have to be thankful for is that we don't get as much government as we pay for." But in the case of the capital gains levy and the double tax on dividends we're getting far too much. These two taxes conspire to reduce the floating supply of stock, while freezing investors into their positions and discouraging companies from issuing additional shares. The Exchange's position on both these laws is well-known. They have long since served any doubtful revenue-bearing purpose they had. Today, they are adding to the negative influences on the market, and they ought to be revised downward — and eventually eliminated.

In essence, then, what I have wanted to stress is this:

I have come to Colorado and discovered again that the American experiment is continuing. One of its most exciting aspects is the boom in shareownership — a fact that our new Census will soon document.

The tide towards ownership is changing our form of capitalism, and permitting more people to share directly in our economic growth.

The Exchange Community's program in recent years has contributed to this development. It has been our privilege to open up *investment* opportunities for millions of people, and to strengthen the market's liquidity by facilitating the *speculative* activity of informed individuals.

Today's market has little similarity to the past, and most people are using the marketplace carefully and well, and concentrating on the long-term.

Nevertheless, there has also been a tendency by some to ignore the necessary cautions, to hope blindly for quick profits, to take unnecessary chances and to fall for the blandishments of the phony promoters. To meet this problem I can offer you the Exchange Community's pledge that we will continue and even expand our educational efforts. And we will continue to see that our own facilities will not be used for reckless speculation by the uninformed.

Finally, because these matters are not the exclusive province of either the investing public or the Exchange Community, we will continue to impress on our Federal government the need for a successful fight against inflation, coupled with workable tax reforms.

Having come this far, there is no reason, in Whitman's words, "to halt in this land today." There is a new frontier ahead — the ownership of American business by additional millions of people. And we believe that the sound and steady progress towards this goal is one of the healthiest and happiest things that can happen to America.