Critical Issues of The New York Stock Exchange:

The Volume Explosion of 1982

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From Wall Street to Main Street to Pennsylvania Avenue people are talking about the phenomenal bull market. For the last few months, every hour on the radio and every night on television news the big story has been the stock market. And with good reason. The recent volume explosion at the Exchange has been mind-boggling. The numbers have dwarfed anything in the past. As fast as records were set, they were broken. Let us take a look at the momentum of the last five months because, frankly, it is a story I never tire of telling.

Volume Explosion

On August 18, 1982 we passed the 100 million share mark for the first time. One would think that was extraordinary enough. But since then the Exchange has handled over 100 million shares per day 24 times! Only a few months ago the Exchange traded 250 million shares in an average *week*. In the month of October the weekly record shot up to 675 million shares. And in one 10-day period we traded over a *billion* shares. That is more than was traded in all of 1960.

And that is not all the good news. Thirteen hundred of our listed stocks gained in price—four times the number of listed stocks that declined in price. The value of these issues has risen $350 billion—a gain of 30% in about 10 weeks. And the Dow advanced more than 260 points—breaking the 1,000 mark that some brokers believed they would never see again in their lifetimes. In the beginning of November the Dow jumped a record 43 points in one day, setting a new Dow record of 1,065.

It has been very exciting on Wall Street. Traders on the floor printed commemorative T-shirts. Each batch quickly became collectors' items. The first T-shirt read: "I SURVIVED THE 133 MILLION SHARE DAY ON NYSE." Two weeks later they printed a new one about 147 million shares. And within a few weeks that T-shirt too was replaced.

Planning for the Rush

We at the NYSE were very excited about this volume explosion. For us as an institution, it proved we are a modern corporation whose technological expertise was ready for the challenge. We have been preparing for such volume levels for the last four years. We are continually upgrading our systems, planning, and services for the member firms, listed companies, and investors—both public and professional. The Exchange invested over $70 million in our efforts to modernize, and it clearly paid off. We have gone through trial by fire, and our systems performed perfectly.

The way our corporate planning and systems designs worked with such great success has been the most exciting news to me for the last few months. Some of the media gave the Exchange credit for its operations, but it is difficult for computers to get up and take a bow. So, most television reporters just talked about the rising NYSE Index, while framed against the background of the floor of the Exchange. The commotion on the floor always looks exciting. It makes a great picture. But watching the news, I wondered if all the theatrics obscured the real story: the resiliency of the capital formation process.

Psychological Economics

I hope most Americans understand that the volume explosion was news about their lives also. What happens on the trading floor of the NYSE affects most people in this country one way or another. Certainly trading fluctuations affect people who own stock—and there are 32 million stockholders, with California being the second largest stockholding state in the nation. Trading fluctuations affect indirect shareholders as well—persons whose funds are invested by pension plans and life insurance companies—and there are 135 million indirect shareholders. People do not realize that three out of every four Americans have a stake in the market. At the Exchange, we see this effect manifest itself in two ways: psychological economics and dollar-and-cents economics.

Psychological economics is a common phenomenon in the stock market. Psychological economics is economic behavior determined by what people are thinking. For example, if enough people are buying stocks, then it is in fact a good time to buy stocks; if enough people are selling stocks, then you better not go down with the ship. People will not buy goods and thus reduce inventories if they think the nation is in a recession—which, in turn, helps keep the nation in a recession. This is why the stock market can be so important.

If you had to pick one barometer of the economy with which the general public is familiar, it would be the stock market. The average American sees a rise in the market, and it makes that person feel good about the economy. If the stock market is going up, the psychological feeling is that things are getting better. That is why we should all be grateful for the recent media coverage of the Exchange. It helps make the NYSE Index as much a part of American consciousness as the World Series. A rising market can be one of the catalysts that help jolt the economy out of a recession—provided, of course, that the fundamentals are favorable.

Dollar-and-Cents Economics

Everyone, shareholders and nonshareholders alike, should welcome the rise in the market because of what it means for dollar-and-cents economics as well as for its psychological value. Dollar-and-cents economics is the kind of economics used in most businesses. Whenever the secondary market is strong, and prices are higher, both large and small companies return to the primary market with underwritings to bolster their equity and strengthen their balance sheets. When the secondary market stampedes, it is a sign that the marketplace is beginning to reliquify and will serve to encourage movement by corporations into the primary market.

This relationship between the secondary and primary markets exists because the pricing mechanism is the same for both. A higher price in the secondary market provides a much-needed "window" where long-term capital can be raised. In the early stages of a major market move, the movement may also stimulate mergers and acquisitions, which may not please everyone.

Capital Market System

A lot of people who watch stock market news on television do not really understand this relationship between secondary and primary markets. This was made clear to me by a doctor I met in Boston. He was a prime candidate to own stocks because he made an excellent living and came from an affluent family. In fact, he did own a portfolio of stocks that included General Motors, among other companies. He asked me: "If I own GM stock, why can't I sell it back directly to the company?" I was aghast that he had no basic understanding of the role played by an Exchange market as well as his ignorance of where GM had invested the capital it raised through the Exchange. So I said to him: "What would you like GM to pay you for the stock? A machine tool, half a wall, or part of a concrete floor? General Motors took the capital they received from underwriting sales in the primary market and invested it into plant and equipment." The doctor admitted that he had not thought about the Exchange in that light.

The trouble is that he really had not though about the capital market system at all. Unfortunately, he is not alone in his indifference.

It is important for all of us to remember that unless people understand how American capitalism works and understand the contributions of its components—such as the NYSE and other exchanges, listed

companies, brokers, banks, and the underwriting community, Americans will never appreciate the strength of our economic system.

Disney Corporation

Let us look at the example set by a California business, the Disney Corporation. Disney is one of our listed companies. We have enjoyed a long and fruitful relationship. We have watched Disney grow into a diversified, modern corporation. To the average American, Disney means Fantasia, Mickey Mouse, and The Love Bug. But to the people at Disney, their corporation represents advanced technology, a superior product, and job security.

Disney needs capital not only to operate its existing divisions, such as films, games, and amusement parks, but also to stay competitive in a changing world. They recently opened the Epcot Center. Epcot may be the planned community of tomorrow but first Disney had to plan Epcot. That process included architects, planners, contractors, and marketing experts, among others. Disney had to buy the land piecemeal in a period of volatile real estate prices. They had to negotiate agreements with a host of designers, builders, and suppliers. Later, Disney had to hire the personnel. They did all this by raising capital in the primary marketplace, and those sales were supported by a broad, liquid secondary marketplace.

By building Epcot, Disney gave the world a vision of becoming a better place to live. But they also created a working reality of new jobs, career advancement, and capital infusion into the local economy. Local retail and service industries for miles around are enjoying greater prosperity thanks to Epcot. And that prosperity will, in turn, lead to more family savings. Those savings will be used for education, for reinvestment into local businesses, and for a better quality of life in general.

Public Function

At the New York Stock Exchange, we believe the market system is all about putting money to work for a better quality of life for all Americans. We accept this responsibility with a very serious attitude. When the Exchange does 149 million shares and you see happy brokers on television, it is true that the brokerage business is celebrating its own good fortune. But at the NYSE, we are also performing a far greater public function, and we never lose sight of what high volume means for all Americans. To me it means a promise of prosperity in a time of economic darkness. That is the vision of the Exchange: *a community of tomorrow where capitalism is still delivering on its promises.*

The Exchange works hard to support this vision because we believe in the future. We believe in our own future, and so we are continually upgrading our systems, refining out long-range planning, and investing in research. I am sure the Exchange will handle 300 million share days in the not-too-distant future.

And we at the Exchange believe in America's future, and that is why I am trying to spread the news about the importance of sound capital information, and I ask you to do the same. We have seen nations that neglected their capital base become susceptible to scarcity, inflation, unemployment, and declining standards of living. I am not pointing a finger but we have seen that neglect happen here. We cannot continue to allow this neglect.

We must always be vigilant about the capital formation process. There can be no lazy days or off years for us. That is why I am sounding the drums: to tell everyone who will listen that we can pull out of this recession, that we can restore America's economic vitality, and that we can deliver on the promises of this great economic system of ours—if we mind the store.

Economic Recovery?

As President of the Exchange, I am constantly asked for hot tips. There are two tips everyone asks for: people want to know if the market is predicting a recovery and they want to know if I can recommend a stock. Because you have been such a wonderful audience, I am going to do what I have never done before; I am going to answer these two questions.

First, is the market predicting a recovery? The answer is "Yes—we hope." As Paul Samuelson once said: "The stock market has successfully predicted nine of the last six recessions!" Seriously, the stock market has had an excellent record as a prognosticator and an indicator, simultaneously. The market forecast the onset of recessions in 1969, 1973, 1979 and 1981. And the market forecast their recoveries in 1970, 1975, 1980, and, of course, 1982. That is about as good a record as your local weatherman—and he has a farmer's almanac to help him!

There are other indications of imminent recovery. The bull market saw heavy action in the technology, retail savings-and-loans, and home-building groups. These groups had been a burden on the economy for some time. And finally, it is important to note that throughout the bull market the amount of cash invested in the money markets continues to rise. As interest rates decline further, I believe that the market will make room for some of these investors as well. So I think from any perspective, economic recovery is on the way.

Hot Tip

And now let us move onto the second question—the answer you have all been waiting for. I can see in your faces that some of you are already guessing what I am going to say. You are thinking: is it a blue chip stock like IBM? Or is it the obvious choice, like an energy or high-tech stock? I hate to disappoint you, but my tip is neither one of those. My answer really should not be a surprise. The stock I have in mind is the most underpriced stock on the big board today. It is a glamour stock, a technology stock, a home-building stock, a retail stock, and a financial stock all rolled into one. Judging from the amount of foreign investment in this stock, people from Europe, the Mideast, and Asia know it is a great bargain selling way below book value. Between you and me, this is the hottest tip I can give you. The name of that stock? *America, Incorporated.* And fortunately, you are all shareholders.

Questions & Answers

Q. During the last quarter of the rally, what percentage of the volume came from foreign sources?

A. It is very difficult for us to tell from our research, but as near as we can determine most of the volume came from domestic sources and particularly domestic institutional sources. We built a model in 1978 that predicted the Exchange and member firms would handle a 150 million shares a day and 150,000 transactions. Part of that has proved accurate—we did handle 150 million shares a day. The transaction prediction, however, assumed 1,000 shares per transaction. The number of shares per transaction have in fact been significantly higher—1,500 to 1,600. Also, 50% of all the volume had been in blocks over 10,000. All this would indicate that the volume is primarily due to institutional activity, which we can assume is mostly domestic.

Q. Is it relevant whether the small investor returns to the market?

A. This question is often answered from the institutional perspective; many people believe that in one way or another, all the money will become institutionalized. If in fact the question is posed to our listed companies, the answer will be entirely different. The listed companies tend to feel that if economic recovery is indeed coming it is riding on the backs of the individual investors. Individual savings have to be funneled into the capital formation process.

The model formulated at the Exchange offers a number of interesting predictions on this issue. One, the model foresees continued growth in the institutionalization of money, but not at the rapid rate of a few years ago. Two, that the market for securities will continue to grow because individuals, due to tax incentives and due to changing social conditions that will make future retirees more dependent on their own resources, will be required to save and invest in order to protect their own interests. This trend will bring the individual investor into the market. From a low in 1975 of somewhere between 24 and 25 million individual investors in this country, today there are 32 million individual investors. This trend has accelerated in the last few years and we believe it will continue.

Another interesting note: these new investors are generally in their 30's—the very generation of Americans that once had a number of questions about the economic institutions of this country! It is a positive sign that there has been a change in feeling among these people.