

For
Commissioner
Landis

REVIEW OF REVIEWS Private News Letter

STATISTICAL SECTION — THE PULSE OF BUSINESS

233 FOURTH AVE., NEW YORK, N. Y. ★ IN TWO SECTIONS — SECTION TWO

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STOCK MARKET AND BUSINESS GO IN OPPOSITE DIRECTIONS

CORCORAN
TESTIMONY
IMPRESSED
COMMITTEE

Present gloom in the securities market is due largely to a realization by brokers that the Fletcher-Rayburn stock exchange control bill will be passed. The Stock Exchange has been given representation by counsel at hearings. The sole purpose is to disarm criticism. Testimony has not affected the strong determination of the Senate Banking and Currency Committee, reflecting sentiment in both houses, to pass bill at this session. Corcoran (counsel for RFC and one of the authors of this bill) testimony, showing how margin requirements allow ample credit on stable securities and protect investors against a sell-out by the broker, impressed the committee.

Take two securities both selling today at \$100, one non-speculative and the other highly speculative. In July, 1932, the non-speculative security sold at \$80, and the other at \$30. The holder can borrow 80 per cent of the three-year low price, or 40 per cent of the current price. Eighty per cent of stable security low price is \$64; of speculative security low, \$24. Forty per cent of the current price of both is \$40.

PROTECTION
TO MARGIN
TRADER

Consider the protection to the margin trader. Under present rules of the Stock Exchange, if the debit balance is more than \$5,000, the investor puts up 30 per cent. If he buys 100 shares at \$100, total \$10,000, he puts up \$2,300, this being approximately 30 per cent of \$7,700 debit balance.

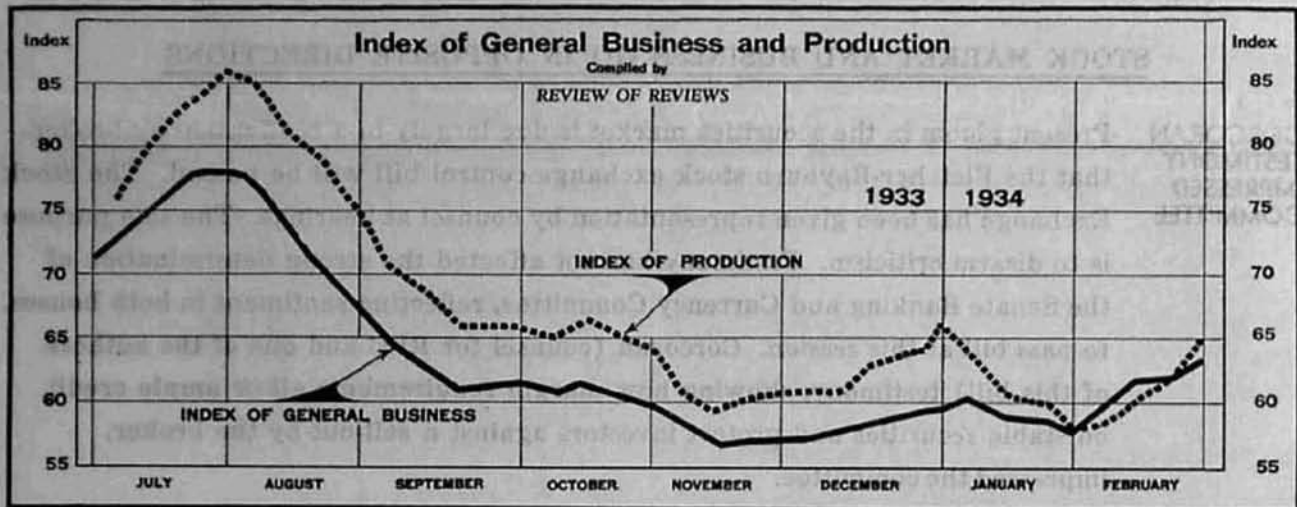
If the stock drops to 77 the entire hundred shares must be liquidated, and the investor is cleaned out. Under the Fletcher-Rayburn bill, assume that the stock drops to 77: The investor originally deposited 60 per cent, \$6,000 margin. The drop to 77 cuts this equity to \$3,700, or 48 per cent of the market value. To restore his 60 per cent equity position, the investor sells 20 shares. He still owns 80 shares, has an equity of \$3,700, and a chance to recover losses.

TRADING
VOLUME
AND
SPECULATION

Note contrasts under the two systems: Under the control bill, liquidation forced by a 23 per cent decline in market price is only one-fifth of what it is under present Stock Exchange margin rules, assuming a purchase of 100 shares in each case. Under the control bill, the margin speculator loses \$2,300 of his \$6,000 investment—i.e., 38 per cent. He loses the same amount, \$2,300, if he buys under the present rule with a 30 per cent margin. Under Stock Exchange rules he could

have bought 260 shares, for \$26,000, with his \$6,000 margin. He would have lost the entire \$6,000 in a 23 per cent decline.

The new system limits an investor with \$6,000 to the purchase of 100 instead of 260 shares on the bull side. It limits liquidation in a bear market to 20 instead of 260 shares. It cuts speculative profits and speculative losses. It will reduce market turnover seriously, brokerage earnings ditto. It may provide a more stable market, though this is extremely uncertain. Market values are determined by corporate earnings, supply of investment capital, money rates, and apparent trend. Trading volume has little effect on values. Compare the bond and unlisted securities markets with the stock market.



INDEX OF GENERAL BUSINESS

FINANCE	Weight Factor	1919-1931=100	1934				1933			1933 Feb. 25	
			Feb. 24	Feb. 17	Feb. 10	Feb. 3	Jan. 27	Jan. 20	Jan. 13		Jan. 6
Stock Sales	(2)	1919-1931=100	71	77	85	67	51	43	33	35	21
Bond Sales	(1)	"	153	153	158	144	117	116	102	103	86
Money Rates	(4)	"	25	25	25	25	25	25	26	26	17
New Financing	(2)	1927-1931=100	8	7	6	10	9	8	8	3	10
Bank Debits, N. Y. City	(4)	*1919-1931=100	52	49	49	46	46	44	44	44	52
Deposit Circulation, N. Y. City	(4)	"	56	51	50	46	45	43	41	41	41
Index of Financial Activity	(17)		50	48	49	45	41	39	37	37	35
DISTRIBUTION											
Bank Debits outside N. Y. City	(10)	*1926-1931=100	66	66	69	65	65	66	68	68	58
Deposit Circulation outside N. Y. City	(10)	"	86	84	88	86	83	87	91	90	53
Merchandise Carloadings	(11)	"	—	70	71	72	72	68	66	66	61
Index of Distribution	(31)**		68	69	71	69	67	66	67	68	57
PRODUCTION											
Bituminous Coal	(3)	1919-1931=100	—	72	68	65	62	63	65	67	64
Crude Oil	(3)	"	93	96	95	89	91	94	95	89	92
Commodity Carloadings	(8)	"	—	63	61	61	60	59	59	60	54
Electric Power Production	(7)***	"	70	70	70	70	69	68	69	69	67
Steel Production	(9)	"	48	46	43	42	40	40	43	46	20
Automobile Production	(6)	1927-1931=100	95	88	78	68	59	55	54	54	38
Construction Contracts	(11)	x1928-1932=100	44	40	43	41	43	55	56	64	28
Cotton Consumption	(5)	1927-1931=100	81	79	70	70	82	80	81	83	72
Index of Production	(52)		65	62	60	58	58	60	61	64	47
Index of General Business	(100)		63.3	62.1	61.7	59.2	57.9	58.3	58.9	60.3	48.1

* Allowance made for growth and changing price level.

*** Allowance made for growth.

** Deposit circulation not included in Distribution Index.

x Allowance made for changing price level.

RESULT OF HEARINGS The net effect of hearings is to assure amendments partly to clarify and partly to make more drastic. The defense of exchanges to date is that the bill will put brokers out of business, destroy values, and subject listed corporations to bureaucratic control.

True in part. Exaggeration recognized and tagged by opposition. Amendments will exclude all government bonds from margin requirements, clarify bank loans to business on security collateral, make prohibition against wash sales, matched orders, and other fictitious transactions apply to unlisted as well as listed securities, outlaw tipster sheets, and make uniform corporate accounting provisions more definite.

CONTROLLED FOREIGN TRADE There will be three export-import banks instead of one and George N. Peek will head all three. The first will finance trade with Russia, the second with Cuba, and the third probably with Latin and South America although this is still indefinite. The purpose in each case is to determine the amount and kind of American goods to be swapped, and the amount and kind of foreign goods accepted in return—e.g., American cereals for Cuban sugar.

The sale of cereals and sugar will be left in private hands. The American will not exchange his rolled oats directly with the Cuban grinder for sugar. Peek's banks will make certain that credits created by sale of sugar in this country by Cubans will meet charges created by the purchase of cereals, typewriters, etc. The export bank will act as the go-between and provide the means of payment pending final cancellation of export credits by import debits.

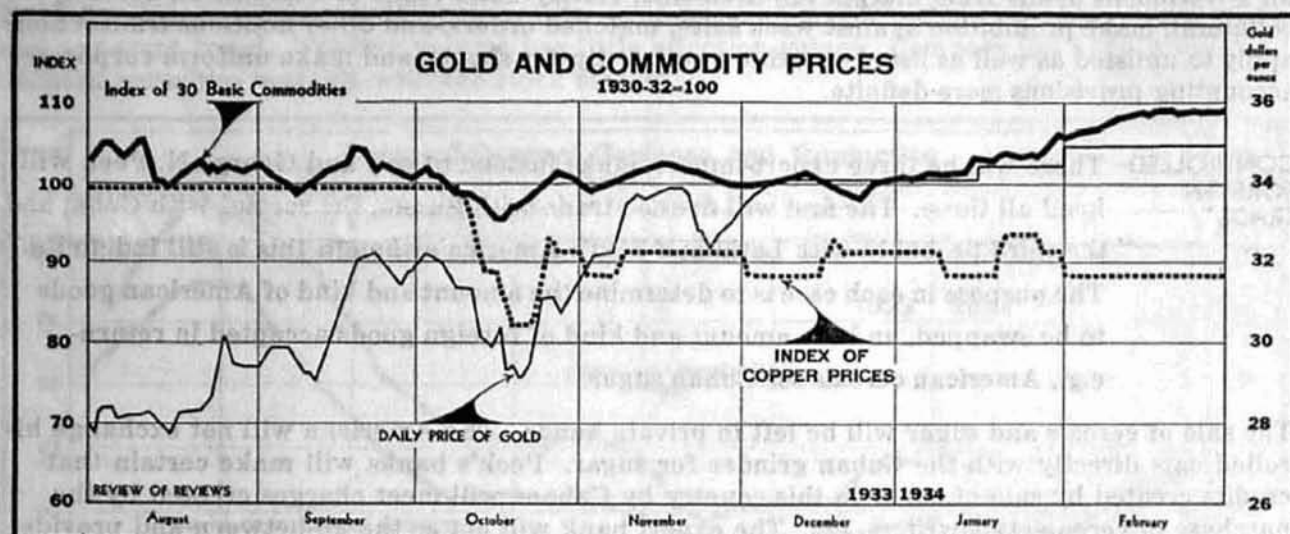
CUBA'S BUYING POWER Cuban feelers for special consideration, on the ground of temporary incapacity to pay, will get little sympathy. The facts knock all the props from under their pleas. During the thirteen year period 1921-1933 we bought 2,744 millions of goods from Cuba and sold her 1,673 million. Our purchases have averaged 164 per cent of our sales. Last year excess U. S. purchases of Cuban products amounted to 133 per cent. This difference has been consistent and substantial. Tourist expenditures further increase Cuban buying power for American products.

What do the Cubans do with the difference? They use it to service foreign (chiefly American) investments in their island and to buy foreign manufactured articles. The American consumer in buying Cuban sugar deprives the American farmer of a market, provides interest on capital invested in Cuba and payment for articles which non-code, inferior-living-standard, foreign labor sells in the island. There is political dynamite in this, if and when realized.

ONE WAY BARGAINS Sugar quotas for Cuba and colonies are one-way trade deals loaded for the other party. Quotas guarantee a fixed market, at a fixed price, for foreign producers. There is no reciprocal assurance by Cuba, Hawaii, Porto Rico and the Philippines for manufacturers of American goods. The latter must compete, in totally unprotected market areas, with goods produced in the world's worst sweatshops. There will be trouble on this score as soon as domestic producers perceive the strength of their case and learn how to present it.

The President's request for full power to negotiate reciprocal trade agreements with foreign

countries will add insult to injury. Peek is farm-minded, looking for more sales of farm crops. He is willing to accept manufactured goods in return. Brain trust advisers were raised in academic atmosphere, which regards the tariff as a racket for private industries. Peek and the brain trust are willing to sacrifice home industries that "are not economically justified." Roosevelt wants to be the Spartan mother with the right to determine what anemic economic infants shall be exposed, with the vacancy at the maternal bosom to be occupied by strapping foreign bambinos.



DAILY COMMODITY PRICES

Index—1930-1932—100

Quotations by United Press

	Feb. 28, 1934		Feb. 27, 1934		Feb. 26, 1934		Feb. 24, 1934		Feb. 23, 1934		Feb. 21, 1934	
	Price	Index	Price	Index	Price	Index	Price	Index	Price	Index	Price	Index
WHEAT—No. 2 Red Contract, Chic. bu.....	.87½	119.86	.88	120.55	.88	120.55	.88½	120.72	.88¾	121.58	.89	121.92
CORN—No. 2 Mixed Contract, Chic. bu.....	.48½	85.39	.47¾	84.07	.47½	83.63	.49¼	86.71	.48¾	85.61	.48¼	84.93
RYE—No. 2 Contract, Chic. bu.....	.62½	126.27	.62¾	127.54	.62	126.02	.62¾	127.54	.63¾	129.57	.62¾	127.29
OATS—No. 2 White Contract, Chic. bu.....	.36½	122.48	.35½	117.87	.36¾	123.74	.35¾	120.39	.35¾	120.39	.35¾	120.39
FLOUR—Spring Patent, N. Y. bbl.....	6.525	129.98	6.47½	128.98	6.40	127.49	6.525	129.98	6.525	129.98	6.625	131.97
LARD—Prime, Chic., lb.....	.065	81.25	.065	81.25	.065	81.25	.065	81.25	.0655	81.88	.0625	78.13
COFFEE—Rio No. 7 Spot, N. Y. lb.....	.10¾	139.61	.10¾	139.61	.10¾	139.61	.10¾	139.61	.10¾	139.61	.11	142.86
SUGAR—Raw, N. Y. lb.....	.0347	108.44	.0347	108.44	.0347	108.44	.0357	111.56	.0357	111.56	.0355	110.94
BUTTER—Creamery 92 Sc. N. Y. lb.....	.26½	91.38	.26¾	90.93	.26	89.65	.26	89.65	.25¾	89.22	.25¾	89.22
HOGS—Av. "most sales" Chic. lb.....	.044	67.28	.0455	69.57	.047	71.86	.044	67.28	.044	67.28	.045	65.75
CATTLE—Av. "most sales" Chic. lb.....	.059	68.45	.057	66.13	.0565	65.55	.0565	65.55	.0565	65.55	.0565	65.55
LAMBS—Av. "most sales" Chic. lb.....	.0645	92.01	.064	91.30	.064	91.30	.063	89.87	.063	89.87	.0635	90.58
HIDES—Native Steers, heavy, Chic. lb.....	.09¾	100.51	.09¾	100.51	.09¾	100.51	.09¾	100.51	.09¾	100.51	.09¾	100.51
WOOL—Fine unwashed combing, Boston lb.....	.35½	138.13	.35½	138.13	.35½	138.13	.35½	138.13	.35½	138.13	.35½	138.13
COTTON—Mid-upland, N. Y. lb.....	.1215	127.62	.1215	127.62	.1210	127.10	.1240	130.25	.1240	130.25	.1240	130.25
SILK—Crack xx Japan, N. Y. lb.....	1.51½	61.58	1.50½	61.18	1.52½	61.99	1.56	63.41	1.56½	63.62	1.59½	64.84
RUBBER—Spot smoked ribbed sheets, N. Y. lb..	.10½	207.90	.10½	204.19	.10½	204.19	.10½	209.14	.10½	210.38	.10¾	205.43
COPPER—Electrolytic, N. Y. lb.....	.08	88.78	.08	88.78	.08	88.78	.08	88.78	.08	88.78	.08	88.78
LEAD—Spot, N. Y. lb.....	.04	92.81	.04	92.81	.04	92.81	.04	92.81	.04	92.81	.04	92.81
ZINC—Spot, St. Louis, lb.....	.044	119.24	.044	119.24	.044	119.24	.044	119.24	.044	119.24	.044	119.24
TIN—Straits Spot, N. Y. lb.....	.52½	200.00	.52½	200.48	.52½	200.48	.52½	200.96	.52½	200.96	.52½	200.96
SILVER—Com'l. Bars, N. Y. oz.....	.46¾	146.85	.45¾	144.87	.45¾	145.26	.46¾	146.85	.46¾	147.64	.46¾	146.85
STEEL SCRAP—Chic. ton.....	11.50	125.81	11.25	123.08	11.25	123.08	11.25	123.08	11.25	123.08	11.25	123.08
PIG IRON—Composite Iron Age, Pitts. ton.....	16.90	108.61	16.90	108.61	16.90	108.61	16.90	108.61	16.90	108.61	16.90	108.61
COKE—Connellsville net furnace, Conn. ton....	3.50	128.96	3.50	128.96	3.50	128.96	3.50	128.96	3.50	128.96	3.50	128.96
CEMENT—Dom. Portland, N. Y. bbl.....	2.65	113.63	2.65	113.63	2.65	113.63	2.65	113.63	2.65	113.63	2.65	113.63
YELLOW PINE—20 ft. and under 6 in. Base Price**	57.25	115.26	57.25	115.26	57.25	115.26	57.25	115.26	57.25	115.26	57.25	115.26
DOUGLAS FIR—Rough 6x6, 8-24 ft., N. Y.....	42.50	140.82	42.50	140.82	42.50	140.82	42.50	140.82	42.50	140.82	42.50	140.82
GASOLINE—Drums Tank Wagon, exc. tax*.....	.12	100.84	.12	100.84	.12	100.84	.12	100.84	.12	100.84	.12	100.84
CRUDE OIL—Kansas-Oklahoma at wells***.....	1.08	129.49	1.08	129.49	1.08	129.49	1.08	129.49	1.08	129.49	1.08	129.49

COMPOSITE WEIGHTED INDEX

108.60

108.13

108.12

108.64

108.65

108.58

*At New York—Gallon.

**At New York—Thousand Feet.

***At Tulsa—Barrel.