

March 21, 1961

MEMORANDUM

To: Philip A. Loomis, Jr., Director
Division of Trading & Exchanges

From: Edward H. Emerson, Special Consultant

Subject: Our Speculative Market

Don't you think that the tremendous volume on the exchange and current stock prices warrant some statement on the part of someone connected with the Commission, possibly an incoming or outgoing Commissioner. The statement need not be long and it should not offend any group but it should carry a warning against uninformed speculation that will put us on the record.

Language could be somewhat as follows:

"The reports of our investigators indicate that once again a great many persons are gambling in securities. Of course, not all recent buyers are gamblers. Many sophisticated investors, including institutional investors, continue to buy selected securities based on their considered opinion as to the worth of the securities bought. Nevertheless many people who are contributing to the volume and erratic price movements of suddenly popular securities, many of which have thin markets, have been persons who have no knowledge of the stock they have bought but instead are motivated solely by the gambling instinct. This class of persons tends to purchase even the most obscure and dubious securities simply because of some wild rumor. No doubt some of them hope to be able to resell before the fact catches up to the latest story. Most of them, however, will cling to the securities they have bought and will suffer substantial losses.

Such persons should realize that each purchase of a security should be based on knowledge of the company's assets, earnings or prospects and that every buyer takes a risk whatever he buys. If his purchases are based on nothing more than hearsay or hope, his risk is substantially increased".

Incidentally, have any discussions on this subject been had with the stock exchanges?



Edward H. Emerson