Study
Chap VI

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Drafted Sunday, August 10, 1963

Mr. Milton Cohen
195 Green Bay Road
Hubbard Woods, Illinois

Dear Milton:

When sending some material to Olie and Joe recently, I requested your residence address as I wished to write you after the last installment was transmitted.

First, I want to congratulate you on what appears to be an excellent job. I say "appears" because I have seen only newspaper and Dow-Jones abstracts plus, late last week, the "Summaries, Conclusions and Recommendations" in Chapters VI, VII, and VIII, published in June and circulated by the IBA to its members.

If I may presume to "continue" the off-the-record cocktail-hour conversation which we had about sixteen months ago, I would like to address myself to one point. Your group, while recommending that New York Stock Exchange and American Stock Exchange specialists and their firms be prohibited from having their own retail customers, apparently suggests that the extension to regional exchanges of this prohibition and other "responsibilities and privileges of these [regional] specialists should be held in abeyance pending" further studies.

One of the most serious limitations of the regional exchanges is the shortage of adequate specialists owing principally to inability of some and insufficient capital of many. I think it is fair to say that the great preponderance of effective and adequately financed regional specialist-odd lot dealers is affiliated with a member firm doing substantial retail business.

On the San Francisco floor of the Pacific Coast Stock Exchange, there are some firms doing little or no retail who have partners acting as specialists with important "books" (e.g., one has Pacific Gas & Electric and Standard Oil of California in addition to a broad representation of other issues). However, the backbone of the San Francisco specialist structure is provided by partners or stockholders of A. G. Becker & Co., Incorporated; Shuman, Agnew & Co.; Stone & Youngberg (not a member of the New York Stock Exchange); and my own firm.

While I do not have operating figures for the other firms, I am confident that extension to regional exchanges of the proposed prohibition of specialists or their firms maintaining retail business (a fortiori if that includes retail business in tax-exempt bonds and other forms of investment, in addition to listed stocks) would cause these firms to withdraw their capital from the specialist operations which they have been financing. I am sure that the decision would be similar with respect to my own firm, for, although in some periods our two posts contribute a greater percentage of our total revenue than I imagine their specialists do to the other firms mentioned, 85% of the paid-in capital of our firm has been supplied by four men who have devoted their entire business careers to underwriting and brokerage oriented to individual and institutional accounts. I am confident that similar predictions could be made about the Los Angeles floor and the Midwest Stock Exchange if the prohibition were to be extended to regional exchanges.

To summarize, I sincerely believe that extension of the proposed prohibition to specialists of regional exchanges would result in withdrawal of the capital which has supported the great majority of the more effective specialists and seriously cripple the regional exchanges.

In closing, let me say that I hope you will now be able to take a good, long trip. If so, please plan to include San Francisco in your itinerary and let me discuss with you a couple of other aspects of the study. There is one in particular which bothers me, but as this letter is already too long, I'll terminate with repeated congratulations.

Sincerely,

Carl

cws/ml

Carl W. Stern