



CHAPTER 1  
DAVIS MEETS  
HIS BANKROLL

**S**HELBY CULLOM DAVIS WAS BORN IN 1909, IN A nice neighborhood in the town that inspired the famous question: Will it play in Peoria? On the family tree, a passenger on the *Mayflower* dangled from his mother's branch and an original inhabitant of Jamestown looked down from his father's. His namesake and great-uncle, Shelby Cullom, was a one-term governor of Illinois, a four-term fixture in the U.S. House of Representatives, and a six-term fixture in the U.S. Senate.

For all the kickbacks, sweetheart deals, and other get-rich-quick schemes foisted on the electorate by the elected, it's a surprise that U.S. politics didn't create notable or lasting fortunes the way Third World politics did in the twentieth century. Journalists in every U.S. town, city, and county found plenty of corruption to write about, but corruption was somewhat democratic—otherwise, for all the money floating around, why didn't America develop a ruling class of millionaire mugwumps? Powerful senators with *Mayflower* pedigrees might have dined out on their lineage, but the lineage per se didn't pay the bills.

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Davis's great-uncle Shelby Cullom wasn't in politics for the money. In fact, he devoted his political career to fighting the "moneyed magnates" who ran the railroads. He opposed Harriman, Vanderbilt, and other railroad tycoons as surely as he opposed polygamy. One man, one wife was a campaign issue in the nineteenth-century American farm belt, along with fair prices for farm freight.

Once the magnates had bought or driven off their competitors on key rail routes, they charged gougers' rates to ship cattle, wheat, corn, and other comestibles. Envisioning the same hordes of dollar signs, tycoons in other industries, from baking to matchbook making, conspired to monopolize. Faced with an epidemic of monopolizing, consumers cried "Foul!" and Washington responded. Congress passed and the courts upheld new laws to restore free enterprise through stricter regulation. Davis's great-uncle was part of this welcome, albeit ironic, solution. He pushed for the Interstate Commerce Commission, which was created in 1887 to thwart the railroad cabal. In 1912, at age 82, Senator Cullom was elected to a sixth and final term. He died in office. Davis, then age five, marched in the funeral procession.

In Cullom's lifetime, America's fastest-growing industry was railroads. Its managers, Davis later wrote, were "like generals of a vast Army." The iron-and-cinder superhighway—an ancient precursor to the Internet superhighway—excited imaginations and attracted more investors than any construction job in history. From the mid-1800s and beyond, the public paid for the laying of track coast-to-coast and exchanged cash for a never-ending supply of stocks and bonds. With the stock market in disfavor, railroad companies preferred to finance their expansion with bonds. In theory, these corporate IOUs were safer than stocks because issuers were obligated to refund bondholders' money, plus interest, while the issuers of stock had no obligation to stockholders. In fact, however, the

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“safer” alternative proved hazardous to at least two generations of railroad investors. Having gone the bond route, railroads were saddled with huge interest payments they often failed to make. During recessions and other crises, they solved their cash flow problems by defaulting on their paper and by drifting in and out of bankruptcy.

Investors in the “vast Army” learned an expensive lesson: There is no guarantee that a fast-growing industry with great future promise will reward its financial backers along the way. Railroads had been lauded as the nation’s most reliable blue-chip companies, yet the payoff was unreliable at best. Stockholders saw their “conservative” rail holdings marked down in frequent panics and bear markets; bondholders were lucky to escape with their money back.

Foreign investors were the biggest losers in U.S. rail projects. The British, in particular, couldn’t resist bankrolling the emerging U.S. market in the mid-1800s, just as Americans couldn’t resist bankrolling emerging Asian markets in the late 1900s. Much British capital was lost in what turned out to be a gigantic, albeit unintended, charitable contribution to U.S. track laying and road building. Heed it well, ye global capitalists! Fast growth in the latest emerging phenom doesn’t necessarily mean fat profits for foreign enthusiasts. The U.S. railroads proved that.

Davis was too young to grasp railroad finance, and his immediate family (father George, mother Julia Cullom) had nothing to do with stocks or bonds. They lived comfortably in Peoria, thanks to the income stream that came from a corner storefront owned by the family. This income stream subdued George Davis’s pecuniary ambitions.

After he studied architecture at Princeton, George Davis had a brief and successful entrepreneurial debut. During the Alaskan Gold Rush, in 1898, he hustled out to the Pacific Northwest but arrived too late in the season to find and stake

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out a promising claim. Hearing that many earlier arrivals had neglected to bring winter feed for their horses, he chartered a barge in Seattle, filled it with hay, and shipped the load to Alaska. The hay was quickly sold out, at sellers' market prices. Prospecting in a mundane substance, George Davis outperformed all but a tiny percentage of the gold diggers. On a larger scale, Levi Strauss did the same thing with pants.

Once he'd returned to Peoria to marry into the Cullom clan, George Davis practiced architecture intermittently, if at all. He dressed like a Wall Street banker, insisted people call him "judge" (a nickname from college) and passed the time writing letters to the editor and picking up the monthly stipend from the storefront. He referred to this errand as "attending to my affairs."

Throughout Davis's childhood, the proceeds from the storefront rental provided a comfortable living: a local country club membership plus a prep-school-and-Princeton education for him and his brother, and enough cash left over to reward the two boys annually with \$1,000 for not smoking. Their father, who suffered from lung disease and smoked, didn't want the mistake repeated.

Growing up with a ne'er-do-well father prepared the world's second greatest stock picker for successful investing, in a backhanded sort of way. From an early age, Davis was determined to work hard and avoid family welfare and all its degrading side effects. He held a variety of summer and afternoon jobs in Peoria. Family lore has him standing on a street corner, hawking a stack of newspapers that announced the end of World War I. This was standard schoolboy stuff, not nearly as imaginative as the enrichment scheme hatched by the world's greatest stock picker, Warren Buffett. According to his biographer, young Buffett paid his pals to dive for golf balls in the water hazards at the local links in Omaha, then sold the balls back to the pro shop.

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Davis was long gone from Peoria by the time the Great Depression retarded the income stream and forced his family to economize. His father, the “judge,” discovered frugality. “Use it up, wear it out, make do or do without,” was George Davis’s motto and mission. He took the mission so seriously that once—on a trip East to visit his son—he stopped at a train station, found the telegraph office, and wired a reminder back to his wife: “When you leave the house, don’t forget to unplug the electric clock!”

Scholastically, Davis excelled at Lawrenceville and at Princeton. He was the managing editor of the campus newspaper at each school. At Lawrenceville, he was voted most likely to succeed. At Princeton, he joined a second-tier social club—Charter—then threatened to quit when Charter blackballed his Jewish roommate, Trivers. He stuck with Charter (at Trivers’s behest) but preferred to socialize with a less starchy crowd. He shared the Bohemian disdain for conspicuous consumption: raccoon coats, silver flasks, gold watches, and so on. His father’s frugality had rubbed off and later would pay off. His habit of living beneath his means freed his capital to make the most of itself.

Davis the student showed no interest in economics or finance. He majored in history and read widely on the Russian revolution. The first U.S. financial best-seller, *Common Stocks As Long-Term Investments*, appeared in the bookstores in 1924, when Davis was in prep school. The author, Edgar Lawrence Smith, argued that stocks were reliable and worth owning, even by widows and orphans. This contradicted conventional wisdom that pegged stocks as Wall Street’s answer to a wager on a horse. Using words that will sound familiar today, Smith observed that Americans lived in a “New Era” of fantastic pecuniary promise.

In these “modern, enlightened times,” Smith wrote of the mid-1920s, investors and consumers stood to benefit from the

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“emerging science of corporation management” that gave U.S. firms a lucrative advantage in the global marketplace.

At its 1921 low, the Dow traded at 63, a price it had fetched back in 1888. As prices rose toward the 1929 top of 381, so did the public’s acceptance of Smith’s enthusiasm. People who’d shunned the market a decade earlier eagerly embraced it late in the rise. Pioneer U.S. mutual funds—Massachusetts Investors’ Trust, and State Street Investing Company—opened for business in Boston. The typical investor sought dividends, not earnings, and blue-chip railroad issues continued to attract a conservative faction looking for a safe return. At this point, the rails were called “America’s 20 percent industry,” because they bought 20 percent of all the iron, steel, coal, timber, and fuel oil produced and sold inside the country. The bullish line was that railroads had outgrown their untrustworthy adolescence and were now too well-established to fail. The railroad index had more than doubled over the decade.

Whether Davis read Smith’s book is anybody’s guess, but it made such a splash, he couldn’t have avoided hearing about it, nor could he have avoided the gleeful newspaper accounts of quick fortunes made by the “margin millionaires” who borrowed their way onto Easy Street.

Though he was a quarter-century away from investing in earnest, Davis met his future bankroll on a French train. Textiles, not the storefront in Peoria, produced his seed capital, siloed in the trust funds of the woman sitting across the aisle. Kathryn Wasserman sized up her husband-to-be: ski-slope tan, tweedy British jacket, leather arm patches for sophistication—the uniform of the Ivy Leaguer. She noticed that his body language (shy eyes, slumped shoulders) didn’t fit his preppy clothes. She sensed his discomfort with women. Figuring he’d never speak first, she broke the ice: “Is Geneva the next stop?”

They discovered they were both getting off at Geneva. They’d enrolled at the same Swiss summer school, sponsored

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by the Rockefellers, where bright students from around the world coagulated. The Rockefellers hoped a few of these high IQs would run their countries' governments someday, remember the fun they had together, and refuse to fight wars with one another. The goal was optimistic, and already the school had produced one promising alliance in transit: Davis and Wasserman.

Davis had a *Mayflower* pedigree; Wasserman, an Ellis Island pedigree. But they found they had a lot in common. Both attended status colleges (Princeton, Wellesley). Both studied Russian history. Both traveled in and around Russia before heading for Switzerland. Davis visited Leningrad and Moscow on an academic junket; Wasserman rode a horse through the wilds of the Caucasus. She slept in tents, shared campsites with gypsies, bartered with tribal chieftains, and rebuffed numerous lechers.

Older by two years, Wasserman had more hands-on romantic experience than the former editor of the *Daily Princetonian*. She'd been dating older men—her sister's "leftovers." Compared to them, Davis reminded her of a "kid brother."

Starting with their first date—an economical walk through a Swiss park—their romance blossomed on a budget. They swapped Peoria stories and Philadelphia stories. Davis learned how the three Wasserman brothers, Joseph, Howard, and Isaac, opened the Philadelphia Carpet Mills in 1895 and the Philadelphia Pile Fabric Company shortly after. The two entities were merged into Art Loom, a carpet company, that occupied an entire city block on Lehigh Avenue. Art Loom went public in 1925.

Joseph Wasserman, the chief decision maker, had prior experience in retail sales in New Mexico. His older brother, Isaac, found a way to slice a rug in half without damaging the weave—a technique that gave the Wassermans an obvious competitive advantage: they could make two carpets from one

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loom. The youngest brother, Howard, died of syphilis after refusing to take a Wasserman test (contributed to science by a distant relative in Germany) that would have detected the disease in its early stages.

U.S. Textile stocks became a glamour industry as consumption and machines loomed carpet boomed.

Joseph married Edith Stix, a fiery suffragette who showed her independence by siding with the workers in a strike against her husband's rug plant. When her husband warned, "They get their way, and Art Loom is finished," Edith ignored him—but not in bed. They produced two sons (one of whom died in infancy) and three daughters, Kathryn being the youngest. The Wasserman children were raised in the sexist tradition: the boys learned business; the girls learned art, music, and how to nab a husband. In those days, capable women did "women's work" in museums, hospitals, schools, foundations, and quasi-academic institutions. They were shut out of "men's work"—anything that had to do with business.

They traveled widely and filled their house at 6600 Wissahickon Avenue, Philadelphia, with fine antiques and exotic souvenirs of their frequent and ambitious globe trots. Visitors ogled the early English and Italian furniture, the Dutch and German paintings, the Fra Filipino Lippi, the Bronzino, the Gainsborough, the Syrian glass, and the 1,000-year-old Chinese sculptures. They'd crisscrossed Europe, toured Greece and Palestine, and traveled overland to Russia and the Orient. In the 1930s, they bought a sixteenth-century temple in China, had it dismantled and crated, and shipped it home. It became the star attraction in the Oriental wing of the Philadelphia Museum.

On one of their European trips, Kathryn spilled ink on a carpet in a fancy Paris hotel. Checking the label on the carpet, her father discovered she'd stained an Art Loom product. He sent the hotel a free replacement.

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The Davis family's net worth was in decline; the Wasserman fortune surged on immigrant energy. Like his future son-in-law, Joseph loved hard work and hated spending; his wife loved spending and delegated work. At home, she rode around in chauffeur-driven comfort and filled the house with maids and cooks while the source of her extravagance hopped the streetcar to work and lunched from a brown bag. Kathryn sided with her mother on politics (Edith was a Democrat; Joseph, a Republican) and her father on frugality and belief in the virtue of paid employment. One summer, Kathryn answered an ad for a "literary position" that turned out to be selling World Book encyclopedias door-to-door. "My mother advised against it," Kathryn recalls, "but I agreed to take the job, as long as they didn't make me sell World Books to anybody I knew. I didn't want family friends to feel obligated."

World Book sent her outside her neighborhood. She devised her own sales ploy, which today's less trusting consumers would never tolerate. She'd stop a stickball game on the street, and ask one of the boys his name and where he lived. The boy would give her both bits of information—in those days, children weren't taught to stonewall a stranger. She'd find the house and ring the doorbell. The boy's mother would open the door (mothers stayed at home in those days) and Kathryn would introduce herself. "I've come to talk to you about your son, Tommy," she'd say, dropping the boy's name.

"What has Tommy done now?" The mother always suspected her Tommy was up to no good. "He's a nice fellow," Kathryn would volunteer, then segue into Tommy's education and how a World Book would help him. She returned to close the deal at night, when Tommy's father was home from work. In those days, fathers made all the decisions.