Where Are the Customers' Yachts?

CHAPTER I

INTRODUCTION

"The Modest Cough of a Minor Poet"
—G. B. S.

"WALL street," reads the sinister old gag, "is a street with a river at one end and a graveyard at the other."

This is striking, but incomplete. It omits the kindergarten in the middle, and that's what this book is about.

For a considerable time now the writer has been viewing the activities of this street each working day, usually from the vantage point of a trading table. At such a table we have access to every form of communication except the heliograph. What we are constantly exchanging, over the incredible network of wires, are quotations, orders, bluffs, fibs, lies, and nonsense. The first four are the necessary agenda of doing brokerage in securities. The downright lies are rather exceptional, and in the long run prove to be unprofitable business practice.

The chief concern of this book will be with an examination of the nonsense—a commodity which keeps sluicing in through the weeks and years with the irresistible constancy of the waters of the rolling Mississippi. Wall Street professionals handle the quote-and-fib part of their business with competence, and sometimes with brilliance. Later, when the mood is on them, they add their Thoughts, still under the impression that they are doing an important day's work. We shall also try not to neglect the nonsense contributed freely by customers, legislators, the press, and the public.

I can recall that even on my very first day in Wall Street, early in '27, I heard considerable foolishness. I didn't spot it for that then, or for some time thereafter. This might have been because I had trained for the profession, as had so many others, with an intensive course in the liberal arts, with emphasis upon the Romantic poets of the nineteenth century. But I can't honestly testify that the boys who took commercial courses awoke from their dreams one bit sooner than we beauty lovers did.

On that first day of employment I was told to look about and acclimate myself. I observed a gentleman buy two hundred shares of something at eleven o'clock. At half-past two he sold it, and willingly calculated for me his profit, which was five hundred and sixty dollars. Naturally, I stood and watched this operation, quite pop-eyed, with a vague sense of pleasure. After the market had closed, I timidly approached some of the office pundits and asked where that money had come from, and had anybody lost it when the man won it? I received a number of prompt and windy answers, none of which was correct. One gray-thatched Nestor explained to me in a simple and kindly manner that the customer had made this money and that the "shorts" had lost it. A younger man said that that was silly (it was), that no one had lost it, that it was a natural increment accompanying the expansion of American Prosperity (which had apparently expanded at least $560 worth right under my nose in a few hours). A third man confided to me that the customer had made this profit quite easily by merely following an "indelibly indicated trend." A fourth said, emphasizing his pronunciamento by tapping me on the chest with a well-manicured finger, "Young man, a bull makes money, a bear makes money, but a hog never makes anything!"

This last statement, while startling and intriguing, did not seem relevant to my question, even then. It took me some time to discover it to be particularly untrue. I have heard it often since; it is a sort of customers' man's chantey to encourage customers to step into and out of the market a little livelier.

Such expressions as the above are mild and simple samples of financial thinking. They might be called Board-Room Economics. Statistical Department Economics are much more profound or, anyway, more complicated. The reader will not get much of those in

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this book. The reason is that I wouldn't discuss economic profundities if I could, and besides, I can't. My method of dealing with those subjects which I have never been able to understand will be to omit them, though this is not the customary method of writers on financial topics.

Please realize that if I am asked to define national prosperity, or to give a recipe for attaining it, or to discuss its relation to our present gold holdings, I can begin vaporing as quickly as the next fellow. But it would be twice-breathed vapor, not my own, and for all I have ever been able to make out, mostly vapor when it was new. Although not a Deep Thinker myself, I have had a thousand separate lunches with those who were. Authoritative figures, compiled by the National Association of Laundries, will show conclusively that there is no school of economic thought which hasn't marked up a tablecloth with huge numbers in an effort to show me the way to financial salvation. Sometimes the salvation was for my country; sometimes just for me.

Books about Wall Street fall into two categories which may respectively be called the admiring, or "Oh, my!" School, and the vindictive, or "Turn the Rascals Out" School. Needless to say, the former were all written formerly, and the latter, latterly, the dividing line being around October, 1929. Neither school assays more than a few pounds of openmindedness to the ton, and that noble occupation, Deep Thinking, continues to be, as ever, mostly second guessing. This book will try to avoid being classified in either school. The writer has no warm emotional regard for any set of economic theories, and I am not in the pay of either Moscow or The Interests.*

There will be found in this work a scandalous lack of statistical proof. There will be no sentences beginning: "In this connection it is significant to note that reliable figures compiled by a prominent school of business administration reveal that in the first quarter of 1938, $218,350,626.55, or 8¼ per cent of the total income of families of four or more including at least one wage earner, but exclusive of any money derived from dividends or rents, etc., etc., etc."

One can't say that figures lie. But figures, as used in financial arguments, seem to have the bad habit of expressing a small part of the truth forcibly, and neglecting the other part, as do some people we know. A case in point is that preferred stock you bought as an extra-safe investment several years ago when the salesman showed you that the stock was earning its dividend more than fifty times over. And then one day you found that this preferred stock was not earning its dividend five times, or even one time. It seems that both the figures and the salesman had neglected to

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* Dammit.

point out the unholy size of the funded debt which was senior to your stock.

Of course, in any of these complex matters, if we could be sure we had *all* the figures, plus *all* the pertinent footnotes which to a greater or lesser extent invalidate most of the figures, then we would certainly have something, even if it were only the blind staggers.

On the descriptive side, a plucky effort will be made to describe the people and operations of Wall Street as they really are. We already have the descriptions from the two schools of writers I have mentioned. We have further, in great plenty, descriptions proffered by the presidents of exchanges, by spokesmen for great banks and industries, by New Dealers, Old Dealers, and the S.E.C., by thoughtful radicals writing in ivy-covered towers, and by informal but enthusiastic radicals shouting from soapboxes in Columbus Circle and Union Square. There is nothing surprising in the conclusion that they can't all be right. But it *is* surprising that no one of them is ever quite right. The best explanation is that some of them don't know what they are talking about; and those who do know, don't tell all they know, or don't permit themselves to believe all that they know. To borrow a term from professional wrestling, they don't "level" with us, and this is true of both the Left and the Right.

THE VALIDITY OF FINANCIAL PREDICTIONS

On the theoretic side our chief preoccupation will be with an inquiry which is quite simple, but which is more awful in its implications than any Senate investigation. It has to do with what has become the major part of the business of Wall Street—the foretelling of price moves. Concerning these predictions we are about to ask:

1. Are they pretty good?
2. Are they slightly good?
3. Are they any damn good at all?
4. How do they compare with tomorrow's weather prediction you read in the paper?
5. How do they compare with the tipster horserace services?

The best way for us to pursue our researches in these questions is to hop a subway downtown. (All the subways run to Wall Street: it is a really important place.) We emerge into that famous maze of canyons, the deepest and sheerest in the world. Then through a set of great doors which never cease revolving, and we are whisked upward in a high-speed elevator. In a few moments we are cliff-high above the teeming street, ready to sample our first Financial Prediction.

We find it in a comfortable board room, where the fascinating symbols and figures glide seductively across the translux. It is: "Looks like there will be a little rally after lunch." This is proffered by young Mr. Joseph Wisenheimer, assistant order clerk, who has had two years at Central High. He is leaning against the ticker box, chewing gum, and looking shrewd. He has dropped this little nugget of matured wisdom into a surrounding nest of customers, many of whom are as impressionable as subdebs. At that, the odds against his being correct are hardly worse than two to one against him. When that fateful moment arrives (the conclusion of lunch), it is safe to say that the market will be either higher—or lower—or unchanged.

We now leave these friendly quarters and enter the portals of a suite that smacks more of the cathedral than of commerce. We progress with increasing difficulty past receptionists, beautiful secretaries, and scholarly young acolytes to the gleaming mahogany desk of S. Hugo Big. Here we garner Thought Number Two, which has just been prepared by Mr. Big himself and will immediately go out on all wires. Skipping down to its conclusion:

> . . . It therefore becomes clear that over the period of the next fifteen years the investment demand for sound convertible issues bearing a

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> low coupon but carrying an attractive conversion feature will find such deserved popularity with the long-sighted investor as to cause the more classic forms of indenture to look to their laurels.

Now the question is: which of these two statements is the sillier? Either of them, you understand, might be correct. And both of them, or statements much like them, have sold billions of dollars' worth of securities.

Perhaps you veer toward Thought Two because onomatopoeically it has a sillier sound.

This I hardly think is fair. Young Joe doesn't know so many long words. But he claims that he is saying something that has some meaning and he claims it just as definitely as Mr. Big. The latter, having been to the business school at Harvard and also having taken courses in English literature, can make his statement *sound* sillier. But, since neither of them has any factual or causal basis for saying either of these things, I claim the honors are even.

Now it should be said here that neither of these men is a liar or even a faker.

If you ask Joe why there will be a little rally after lunch, he will tell you in no uncertain terms. He will say that he observes that the volume is decreasing on the down side, that he can see that steels are strongly pegged just above the last previous lows, and that "they" (whoever "they" are)* are beginning to accumulate second-grade carriers. "But it won't go very far," he may add, proving that at heart he is no wild-eyed optimist—more the old-line banker type. " 'They' wouldn't want to see this market run away."

It is a marvelous thing, the way this lingo is universally used in board rooms, not just in New York but from coast to coast. It is as though someone had invented an Esperanto for saying nothing in a variety of ways.

And, if you ask Mr. Big on what he predicates his fifteen-year opinion, he will give you so many reasons you will wish you had not asked. But he ought to know better. If he should ever lift his nose out of the minutiae of his fascinating business and view it and its history whole, he would be forced to admit the sad truth that pitifully few financial experts have ever known for two years (much less fifteen) what was going to happen to any class of securities—and that the majority are usually spectacularly wrong in a much shorter time than that.

Still he is not a liar; nor is our other friend. I can explain it, because I have not only had lunch with economists, but I have sometimes had dinner with psychiatrists. It seems that the immature mind has a regrettable tendency to believe, as actually true, that

* For an effort to penetrate this mystery, see Chapter VI.

which it only hopes to be true. In this case, the notion that the financial future is not predictable is just too unpleasant to be given any room at all in the Wall Streeter's consciousness. But we expect a child to grow up in time and learn what is reality, as opposed to what are only his hopes.

This, however, is asking too much of the romantic Wall Streeter—and they are all romantics, whether they be villains or philanthropists. Else they would never have chosen this business which is a business of dreams. They continue to dream of conquests, coups, and power, for themselves or for the people they advise.

Some Wall Street men manage to shed these dreams, given sufficient years. But the ultimate dream they almost never shed: that there is a secret, meaningful and predictable, in the rise and fall of financial enterprises—that a "close study" of this and that will prove something; that it will tell the initiate when there will be a rally or give the speculator a better than even chance of making a killing, or guarantee for an estate a safe four per cent for a few generations. All these things are demonstrably unpredictable. You can easily check this from your own experience, or by other people's experience, or by looking over the factual matter in the indignation books. But this cup of tea is too bitter for a Wall Streeter.

THE PASSION FOR PROPHECY

The genesis of Wall Street was a buttonwood tree under which buyers and sellers used to meet. That tree perfectly fulfilled the pure function of a market place; it was a known spot where a man could go to do financial business. A necessary code of procedure for trading was recognized. But soon the brokers moved into a near-by coffeehouse and began adding the business of prophecy to the business of brokerage. The next thing that happened was that the prophecy business almost swamped and ruined the brokerage business.

The croupier at the roulette table does not claim that he knows something about the order in which the numbers will come up. He just sees to it that the bets are properly paid off and that the house isn't gypped—which is a job requiring competence.

But it is hard to find a Wall Street man, from the oldest partner to the youngest "runner," who is willing to be just a croupier. This causes a great deal of anguish in the long run, and the reasons for it are both human and economic.

For one thing, customers have an unfortunate habit of asking about the financial future. Now if you do someone the signal honor of asking him a difficult question, you may be assured that you will get a detailed answer. Rarely will it be the most difficult of all answers—"I don't know."

The average male likes to sit at breakfast and tell his wife and children what Adolf Hitler is going to do month after next. This is a harmless vanity. But from this it is an easy step for him to go downtown and start telling people what United States Steel is going to do month after next. That is liable to lose someone's life savings for him.

On the economic side there is no denying that the more financial predictions you make the more business you do and the more commissions you get. That, we all know, is not the right way to act at all. But I doubt if there are many, or any, Wall Streeters who sit down and say to themselves coolly, "Now let's see. What cock-and-bull story shall I invent and tell them today?" I don't think you can supply any guarantee of accuracy when looking into the heart and mind of someone else. But I feel, from years of personal observation, that the usual thought process is far more innocent. The broker influences the customer with his knowledge of the future, but only after he has convinced himself. The worst that should be said of him is that he wants to convince himself badly and that he therefore succeeds in convincing himself—generally badly.

The runners (the young fellows—sometimes old

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fellows—who hustle through the financial district delivering securities and calling for checks) have at least as many opinions about future prices as the oldest partner, although they have nothing whatever to gain by having them. You can hear them in the elevators, acting as unpaid investment counsel to the elevator operators. But the best proof of the predictors' confused sincerity is that they are constantly sampling their own medicine. At the present time the Securities and Exchange Commission is still formulating new rules in an attempt to limit this convincing form of hara-kiri.

When a great and sagacious financier dies, and the executors go through the strongbox, they usually find, tucked well away in the back, bundles of the most hopeless securities whose very names have been long since forgotten. Although these executors will never leave an estate worth a tenth as much as this one, they gaze at the bundles with wonder and amusement. "Golly," they say, "whatever could the old man have been thinking of to get stuck with these cats and dogs?"

WHEN THE BULL JUMPED OVER THE MOON

It may have been observed that while arguing my case against the validity of financial predictions, I have not touched on the most spectacular example—the late twenties, the supreme miscalculation of this century, which Mr. Westbrook Pegler always refers to as "the era of wonderful nonsense." I have avoided this for several reasons. For one thing, it is too easy and has been cited too many thousand times by people who, ten years ago, were, like everyone else, its dupes. For another thing it was not in all respects Wall Street's error. It was one of the great universal delusions of history, somewhat comparable to such magnificent errors as that the world was flat, or that all you had to do to heal anybody of anything was to bleed him.

There is a feeling in some quarters that even in the late twenties there were crafty Wall Streeters who knew the market was too high. Sure there were, but it didn't do many of them much good. Mr. Andrew Mellon was heard to murmur something to the effect that "gentlemen prefer bonds," but it was not established whether this was his considered advice or a belated entry into wittiness. Mr. Roger Babson had predicted the crash for several years, which shows, among other things, that he had been very wrong for several years before he suddenly became very right. There was always a scattering of bears, "aginners" by temperament, who spent their business days having their ears knocked off. Many of them, bowing to a force which finally seemed cosmic, switched to being bulls at a sadly late period in the era. The remainder who were still short at the time of the crash covered too soon (as who wouldn't?). Then, after prices had gone inconceivably lower, they took their profits and bought stocks (as who wouldn't?). In due course of time, if they bought on margin, they went to "the Cleaners," that mythical establishment to which their brother speculators had repaired some time earlier. "The Cleaners" was not one of those exclusive clubs; by 1932 everybody who had ever tried speculation had been admitted to membership.