CHAPTER ONE

THE DINOSAURS

BIG AND RUTHLESS WHEN THAT WAS ALL THAT COUNTED

Before civilization, dinosaurs roamed the earth, doing as they pleased. They could do whatever they wanted back then; there were no rules to follow, no structure to live or work within and nothing bigger than they were. The only thing governing them was their environment, and because of their intimidating size, they were able to dominate that with unquestioned power.

The Rothschilds, Stephen Girard, John Jacob Astor, Cornelius Vanderbilt, George Peabody, Junius Morgan, Daniel Drew, and Jay Cooke are our financial Dinosaurs. They operated prior to order and organized structure within the capital markets. They too dominated their society through their magnitude and ability to simply surpass the rest of the population.

In creating the basis for our capital market system, they were viewed as ruthless, lawless and merciless. With a single, foreboding footstep, they were able to crush lesser creatures sometimes without really intending to. Like dinosaurs, they were big and awkward and not really civilized—at times completely unaware of their strength and the effects it had on others—whether for better or worse.

Astor, Vanderbilt, and Drew were perhaps the most notorious Dinosaurs, infamous for their foul treatment and manipulation of others. Regardless, during his lifetime, Astor became the "landlord of New York" and amassed a fortune. Vanderbilt pioneered transportation, building up the shipping industry and a railroad empire to accommodate the country's growth. Drew was the father and most rigorous practitioner of stock "watering."

You might view these three men as carnivorous dinosaurs. Each relied on another bite of flesh to build his immense fortune (and then lose it, in Drew's case). But another group of Dinosaurs created and built an economic society without directly harming anyone in particular. The Rothschilds, Girard, Peabody, Morgan, and Cooke might be considered the vegetarians. They were much more gentle and docile in their way of promoting progress—but certainly no less effective.

The Rothschilds, father Mayer and son Nathan, were workhounds who emerged from the German Jewish ghetto to become the first power in world banking. They financed kings, princes, foreign countries, European industry and, when the time was right, America's gradual transformation from an agricultural society to an industrialized nation.

Girard, who really was a vegetarian, financed America's earliest trade endeavors, becoming America's first richest man. He was a mercantile trader who financed import-export voyages and was among the first to support central banking in America (long before its time). Cooke financed the Civil War, becoming the first American to make large underwritings—and their sale—possible.

Peabody and Morgan, both based in London, took up what the Rothschilds started, becoming links between an economically advanced Europe and a cash-needy, emerging America. Peabody was the first to funnel European capital to things like state governments and early forms of industry; Morgan financed our railroad boom starting in the 1860s.

Morgan was perhaps our most important link to modern capital markets in America. His railroad financing sparked a flurry of economic progress, and he funneled much of that progress to his son and American business contact, J.P. Morgan. Young Morgan, whom you can read about in Chapter Three in his role as an investment banker, emerged as a Dinosaur-like power in his own right. Back when Wall Street was little more than a dirt path, young Morgan ruled the road with an iron fist. He was bigger than society and larger than the law, creating structure with each new idea he initiated. Instead of being described in the investment banking section, J.P. Morgan could as easily have been included in this section, as the last of the Dinosaurs, and perhaps the greatest and most powerful of them all.

Despite their larger-than-life personifications, the Dinosaurs didn't live forever. They couldn't. The very structure they created dated them, made them obsolete; the social response to their very existence outlawed them and eventually destroyed them. The progressive era, for example, coming at the height of Morgan's power, was a direct reaction against decades of Dinosaurs and aspiring Dinosaurs who thought they could do as they saw fit in society. The Dinosaurs could. With the rise of the Progressive movement, Roosevelt, Wilson and the income tax. and all the rest of the evolution that ran through the eventual creation of the SEC, no one would ever again have so much total financial autonomy.

It's hard to truly get a feel for the Dinosaurs today, while viewing them from our world—one that evolved through decades of innovation and Dinosaur-bashing and still more innovation and decades where Dinosaurs have since become nothing but memories. Yet, through their existence they provided us with the very beginnings of financial order—when there had been none. With their mass they tromped down the vegetation to make the first crude paths through the financial wilderness. They fought financial battles of a magnitude that could only be viewed as we now would view prehistoric dinosaurs in battle. And from the backlash of those battles came trends to follow and to buck just as early mammals learned to get out of the way of prehistoric dinosaurs and to scavenge their left-behinds. Finally, Dinosaurs gave us the beginnings of a loose set of ethics (both by positive and negative role models). For decades, good and bad would be defined in terms of the Dinosaurs' actions. Men would aspire to emulate their successful market actions, and the outraged would create social foment aimed at early governmental control.

The Dinosaurs will never return. Occasionally a mutation occurs that attempts to be a Dinosaur. But that wanna-be can't survive for the same reason prehistoric dinosaurs can't survive now—regardless of climatic conditions. Simply put, human society wouldn't allow it. Today we have a well defined civilization oriented toward protecting our social order, including the weak and unfortunate. And our social order won't allow Dinosaur-like action. To wit, we have Michael Milken, who came as close to a Dinosaur as anything we've seen in decades. Note how easily the government put Milken in jail on violations which were miniscule relative to the overwhelming mass of his overall junk bond financing activity.

If somehow the Loch Ness monster were to come out of the lake and start strolling in toward town, our authorities would find immediate justification to take action and control it long before it ever got close to population centers. A big wild thing just can't be totally free now, and what is a Dinosaur but a big wild thing? It's actually been a fairly long time since you could be a little, wild thing. Think back to 1911, when Ishi, the last of the wild native American Indians, came in from the woods to give himself up. We took him captive and put him on display in a museum, and in a few years he died of diseases he had never been exposed to in the wild. Our modern societal need to control freedom—lest something damaging occur—will never again allow the evolution of men like the Dinosaurs depicted in this section.

So enjoy these big and wild Dinosaurs. They were among the very first minds that set the market on the path to what it has become.

The Bettman Archives

MAYER AMSCHEL ROTHSCHILD

OUT OF THE GHETTO AND INTO THE LIMELIGHT

Deep in the dank, damp and cramped Jewish ghetto of Frankfurt on the Main in the late 18th century, a nondescript, dark-eyed pawnbroker named Mayer Rothschild created a financial dynasty that grew to finance the development of western civilization. Because of Rothschild and the banking house he built with his five sons, money flowed throughout Europe with ease, enabling the industrial revolution to take place and lift Europe from the dark ages. As a direct result, America—then practically a Third World country compared to prospering Europe—received the financing it needed to transform itself from a provincial, largely agricultural country into a great industrial nation.

Mayer had begun his career by age 10, discovering the ins and outs of money at his father's pawnshop and money bureau. Currency during the 1740s was quite complex, as each of the hundreds of states comprising Germany (still the Holy Roman Empire) minted its own coins. Being astute, he caught on quickly and soon could translate gold and silver into coin and calculate exchange rates with lightning speed.

Orphaned at age 11 in 1755, Mayer followed the sound of clinking coins rather than his parents' idea that he become a rabbi. Over the next decade, he ran a small trade business and pawnshop, selling tobacco, wine, and cloth in exchange for coins. And knowing what a royal connection could do for his career, Mayer courted the business of a numismatic prince—not just any prince, but one of Europe's mightiest and richest, the billionaire Prince William. Mayer sold him his antique coins at ridiculously low prices for years—foregoing immediate profits for long-term favor. He had no intention of staying a small time pawnbroker the rest of his life!

Back then, being a pawnbroker-merchant was one of the only career options available to Jews. Thanks to a papal decree centuries earlier, usury laws forbade Christians from lending for profit. So Jews took over the moneylending trades, becoming pawnbrokers, small trade merchants, and wizards of finance. By the 18th century, it was tradition to trek over to the Jewish ghetto when you needed to pawn a possession for cash or to buy trinkets or second-hand goods. Had Mayer been content with his common role, it's unlikely the Rothschild name would mean what it does today in the financial world.

Tall, black-bearded, with an odd, quizzical smile and a ghetto dialect of Yiddish-Deutsch—Mayer produced 20 children with his wife, Gutle, between 1770 and 1790, with only five girls and five boys surviving. Despite Gutle's harsh life, she was tough, and lived to age 96—which was exceptionally old back then. Seeing the future in his boys, Mayer taught them to buy cheaply and sell dearly before they could walk, and when they reached age 12, he put them to work in the family business. Ultimately, it was through his sons that Mayer realized his ambitions.

Operating from his house, Mayer and sons Amschel, Salomon, **Nathan**, Carl, and James built the business into a strong importing house. This was at the turn of the century, when dry goods were hard to get in Germany unless someone imported them—and that someone was Mayer. Foreseeing the demand for cotton—and perhaps the expanse of his later empire, Mayer sent Nathan to London to make sure cotton shipments reached Frankfurt.

As a big wartime supplier, the Rothschilds piled up the profits. Mayer, still not content with the excess, next began operating a money exchange bureau in their yard. What's considered the very first Rothschild bank appeared to be a nine-square-foot hut—but things weren't quite what they appeared to be. Mayer installed a large iron chest that, when opened from the back, revealed a stairway leading to a secret storage cellar.

Mayer's scheming finally paid off when Prince William of Germany, the man to whom he'd been selling coins, gave him the business he'd been hoping for all along. It started with Mayer acting as the prince's independent agent in an anonymous loan to Denmark. He was the prince's chief banker in 1806 when the prince was forced to flee in exile, leaving his fortune in the Rothschilds' hands.

In the following years Mayer had his sons fan out across the European continent: James went to Paris, Salomon to Vienna, Carl to Naples, Amschel remained in Frankfurt, and of course, Mayer's successor Nathan stayed in London. Each son followed in Mayer's footsteps, courting profitable royal connections, and later each made his own mark by financing kings, wars, and Europe's first railroads. Ultimately, the Rothschilds united to form a sturdy, efficient moneychain across Europe that financed its industrial revolution, creating a common money market for the first time.

By Mayer's death in 1812, his ghetto hopes and ambitions had been realized through his sons, who were well on their way to becoming the world's largest private bank. Without his sons, Mayer might have wound up wealthy, but never world renowned. Why is it that in a book of American financial biographies and American markets there is mention of this European? Simply put, at a time before America had developed its financial markets, the financing of American commodities and government bonds would have been impossible without the flow of funds from Europe. The House of Rothschild, derived through Mayer, was the center of Europe's money markets. Without Mayer and his generational empire, it is unclear that America would ever have developed its own industrial revolution or financial markets. His genes were the seeds through which America's industry got its original lifeblood. In that respect, the seminal tinkling of this German pawnbroker's coins and the thinking that went on behind it are every bit as important to the evolution of American financial history as the life of any American.

The Rothschilds: A Family Portrait, 1962

NATHAN ROTHSCHILD

WHEN CASH BECAME KING—AND CREDIT BECAME PRIME MINISTER

Money became king when Nathan Rothschild rose to power over Europe in the 19th century, forcing people to recognize finance over divine right. More powerful than monarchs, Nathan masterminded the Rothschild money-factory by sparking Europe's industrial awakening. He financed governments, wars, railroads—anything that stood for progress. At his death in 1836, he left an undisclosed fortune (secrecy was a Rothschild trademark), a legacy of Rothschild bankers, and most importantly, the earliest and most abundant source of credit for a burgeoning America via his American agent **August Belmont.**

Although banking was then still in its rudimentary state, Nathan fully understood the interplay between finance and economics, the effects of political news on the stock exchange, the quickest way to bull or bear a market, and how gold reserves affected the exchange rate. Born in Frankfurt, he founded London's N.M. Rothschild and Sons. He spent half his day at the bank and the other half at the Royal Exchange leaning against the same pillar, knowing he was the center of attention. While brokers watched his short, stout figure, hopeful for a sign or a gesture that might foretell his next move, Nathan kept an utterly blank expression—his hands thrust inside his pockets and his hat pulled over his eyes.

Round-faced, red-headed with pouty lips, a sour personality, and arrogant manner, at age 33 Nathan built the family fortune in a single move at the Royal Exchange—with a prince's royal booty! His father, **Mayer Rothschild**, had advised a German prince to buy British consols (English government bonds) and to use Nathan to do so, since Nathan was in London and would only charge a tiny brokerage fee of one-eighth of 1 percent. The prince agreed and sent Nathan the equivalent of $5 million—which was a lot of money back then—all earmarked for oodles of consols, priced at 72.

Quick-thinking Nathan eventually bought the prince his consols, but he first used the money to successfully speculate in gold bullion, making a killing and a reputation for himself in the London exchange. That would be considered highly unethical today because using a client's money for your own benefit is dishonest and generally slimy. But in those days, notions of highly unethical behavior didn't exist. Had Nathan's gold speculation failed, we wouldn't be reading about him now.

When the prince grew impatient for his securities, Nathan simply bought the consols at 62, making another killing by charging the prince the expected 72 and pocketing the difference! Amazingly, it was three years from the time the prince first advanced the money that Nathan actually got the consols for him—1809 to 1812. For three years Nathan used the money, interest free, and from it made two fortunes. If a broker did that today, he would be banned from the industry for life. Nathan just might have been the first of the big-time brokerage scoundrels. Yet five years, later, at 38, he was banker-in-chief to the British Government.

By the 1820s, Nathan and his four brothers were operating from five capitals, creating a financial network that sprawled throughout Europe like never before. Cultivating Europe's wealthiest as clients, Nathan masterminded the family's coups while his brothers successfully carried them out. For instance, Nathan concocted a loan—carried out by brother James in Paris—to finance the return of Bourbon Prince Louis XVIII to the French throne. When Naples was overcome by a revolution, Nathan dreamed up the loan that financed a military occupation by the Austrian army—and brother Carl saw it through.

With communication systems practically nonexistent except for word of mouth, the Rothschild brothers stayed in touch via their famously efficient private courier system that consisted of a network of men, ships that sailed regardless of weather, and, most importantly, carrier pigeons. Even folks unfamiliar with Nathan Rothschild knew about the famous carrier pigeons. Their fame is based to a large extent on how the pigeons enabled Nathan to know before anyone else outside the battle zone of Napoleon's defeat at Waterloo. While others feared England might lose, Rothschild knew otherwise, and by knowing before others on the floor of the London Stock Exchange, Rothschild bought and made another fortune. Rothschild truly brought a different meaning to the phrase, "a bird in the hand is worth two in the bush."

While today money can be transferred almost anywhere with the blink of an eye and a phone call, Nathan lived when the actual, physical currency—often, heavy gold bullion—was physically moved to show proof of deposit. Knowing how inconvenient this was, Nathan replaced this old credit structure with a worldwide system of paper credit. In this way, Nathan enabled the British Government, in its fight against Napoleon, to pay out some 15 million pounds to the continent between 1812 and 1814. He handled the transaction so deftly that the exchange rate was left intact. Until then, a government advancing money was faced with the prospect of losing much of it. In this respect Nathan pioneered international credit.

The Rothschild brothers—Nathan, James, Amschel, Carl, and Salomon—comprised the world's largest private bank. No one else even came close. The House of Rothschild was sort of an international central bank at a time when America barely had a grip on central banking, and couldn't hold on to its grip for long. The Rothschilds were not only capable of financing industries, governments and wars, but they were also able to stabilize panics, pioneer the western world, and outlive the many unstable governments with which they did business.

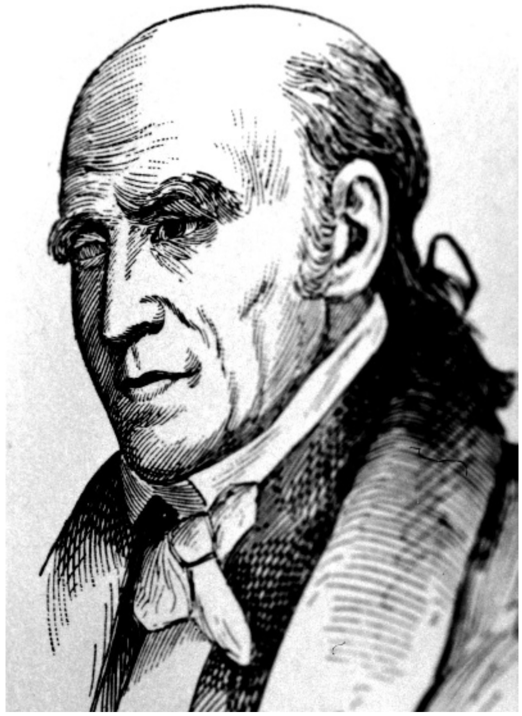
The Rothschilds were capable of affecting history to their liking. For example, when there was cause to worry about war between two German states, the Rothschilds' mother, Gutle, laughed and said, "Nonsense! My boys won't give them any money!" But perhaps the best example of their power was when Nathan, in all his glory, managed to save one of England's greatest institutions, at a time when England was by far the most powerful economic and military force in the world.

He rescued England's central bank, the Bank of England, from bankruptcy in 1826. The year before, hordes of English firms had invested in newly-independent Latin American countries on a long shot. (Nathan, luckily, had been too busy with affairs back home to bother.) Within a year, the countries had defaulted on their loans, leaving the British investors holding the bag, and as a result, some 3,000 firms went under. The Bank of England, meanwhile, was the ultimate loser, for it had loaned those 3,000 firms the money to invest in Latin America. So, just as the bank was about to close its doors, Nathan stepped in and arranged for an emergency transfer of gold bullion from France via his brother to save the bank. It was about the same as if our central bank could rely on the Bank of Japan to bail it out or vice versa.

When not working—which wasn't often—Nathan stayed at home with his wife and seven children. She was his best friend, and they rarely sought the company of people outside the family, unlike some of his more society-minded brothers. Like his father, Nathan kept a close-knit family and wanted his four sons to continue the family business. "I wish them to give mind, soul, heart, and body—everything to business." Fond of making money, but not spending it, he added, "It requires a great deal of boldness and a great deal of caution to make a large fortune, and when you have it, you require ten times as much wit to keep it."

Nathan died in 1836 at 59, leaving a depressed London stock market and his youngest brother in charge of the family fortune. At the time of his death, the famous Rothschild carrier pigeons were released from a London rooftop at midnight, notifying all Rothschild brothers and agents that Nathan was dead. The pigeons carried the simple message, "il est mort," or "he is dead."

The importance of Nathan Rothschild is his essential creation of a European money market. Before him, every country was a financial island. The Rothschild family under his direction made a worldwide force that provided not only the first material international financial interplay throughout Europe, but also spread its web to America via August Belmont. Without the Rothschilds, led by Nathan, there probably wouldn't have been enough of a European money market to fund the conclusion of their industrial revolution, much less the beginning of ours.



National Cyclopedia of American Biography, 1897

STEPHEN GIRARD

THE FIRST RICHEST MAN IN AMERICA FINANCED PRIVATEERS

Stephen Girard had a lousy home life, but in exchange, he had the drive to build a million-dollar shipping empire in the early 1800s—and with his millions, open his own private bank. As eccentric as he was rich, the one-eyed, embittered Frenchman never rested, believing "labor is the price of life, its happiness, its everything."

Starting each day with a spoonful of Holland gin and the strongest black coffee, Girard had labored for over 65 years when he died in 1831. Born near Bordeaux, France in 1750, he went to sea at 14, following in his father's navy-captain footsteps, and became France's youngest captain at 23. In 1774, after his first lone voyage left him in debt, he set sail for New York, never to return home. Girard, who spoke with a thick French accent, worked for a N.Y. shipping firm and half-owned a vessel—but grounded her in Philadelphia when the Revolutionary War broke out, barely escaping British warships. Ambitious and never content, Girard set up shop there in a dingy waterfront office, returning to foreign trade.

While making a name for himself and his maritime firm, Girard married a servant girl in 1777, but the marriage was doomed. After their only child died at birth, his wife went crazy, living the rest of her life in an insane asylum. Girard never remarried, and he never had much fun. To take his mind off things he worked harder, financing privateers and building profitable trades in the West Indies, Europe and Asia. As an American citizen, he built his fortune via hard bargains, persistence and planning. Controlling an 18-vessel fleet named after French philosophers, he transported wheat, fish, flour, lumber, sugar, and coffee, despite frequent embargoes, blockades, pirates, and seizures. Of course it probably didn't hurt him any that he had financing relations with many of the seamiest souls on the docks. A shrewd dealer without patience for stupidity, he declared work "the only pleasure I have on this globe." (Actually he got a big kick out of the singing yellow canaries he kept on his desk.)

As his "only pleasure"—and international reputation—flourished, Girard kept a million-dollar booty with the Baring Brothers in London while investing in Philly real estate, insurance and the First Bank of the U.S. So, when political turmoil brewed and the First Bank's charter was discontinued by Congress in 1811, Girard reeled in his overseas capital to create his much-celebrated Bank of Stephen Girard with $1.2 million in the U.S. Bank's old quarters. While Girard's investment choices were unlimited by his vast capital, he chose a private bank to supplement his maritime firm's credit. "My commercial capital enables me to sell my goods on credit and to carry on my maritime business through cash on hand without the aid of discounts," he once told a Baring brother. Yet, unlike other private banks which were usually connected to large merchandising outfits, Girard—known for his honesty—kept his bank and business scrupulously separate.

Operating at a time when private bankers fell out of favor to chartered, commercial banks because of their increased functions, Girard faced stiff competition from other Philly banks. But immediately securing sound connections—the Treasury and national Second Bank of the U.S.—he successfully led his bank through all economic weather, including suspended specie payments. Floating loans to finance the War of 1812, his bank became heavily involved in Treasury financing, and in 1813, participated in one of the nation's very first syndicates, floating a $16 million loan—then the largest in America's history. En route he was foreshadowing the path that many others would follow later in a myriad of syndicates to finance virtually everything that has ever been financed in America since.

With a sound reputation, Girard's bank acted as a central reserve for rural banks and as a local bank for Philly residents. And since the bank didn't have to answer to a government charter, Girard used his privacy and flexibility to his advantage, quickly adjusting to changing market conditions, perhaps increasing the proportions of loans, or enacting new services, like investment banking. In essence, he was the first free-wheeling wheeler-dealer in the history of banking and finance in America.

Following the war, Girard, a proponent of central banking, was appointed one of five government directors of the new Second Bank of the U.S. When no buyers were found for the $3 million of new stock needed to capitalize the bank, Girard subscribed for it all in 1816. But when possible corruption clouded the bank's policies, Girard refused another appointment to the board and returned to running his bank's day-to-day activities as president. Girard brought his bank prosperity, making him worth nearly $5 million by 1815.

Aside from his independent, yet conservative banking practices, Girard is recognized as a unique symbol of his times. He combatted wine-swigging, cargo-stealing pirates to get rich in a mercantile economy—then took on the up-and-coming commercial bankers in an increasingly corporate and civilized world. He was uniquely versatile, commanding fear as easily as respect from those with whom he dealt. And as the new era of commercial banking was ushered in, the aging Girard, continually resisting its corporate nature, foreshadowed what was to come—the all-powerful and private investment banker. Had he lived another 75 years, the wealthy, influential Girard might have rivaled the powerful **J.P. Morgan!** Unlike Morgan, however, Girard's empire died when he did in 1831. His bank's books were closed four years later, giving rise to the chartered Girard's Bank.

At the time of his death, from influenza, Girard was worth some $6 million. Of course, that is not actually as much as it might seem. Somewhere along the way he must have lost a bundle that isn't recorded anywhere. Consumer prices were very high following the war of 1812, and soon thereafter they peaked and then fell steadily, so that by his death they had fallen by half. $6 million in 1831, adjusted for changes in consumer prices, would miraculously be worth only about $80 million today. So while our first richest man was certainly prosperous, he wasn't as prosperous as any of the *Forbes* 400 today. In a sense his riches are a reflection of how financially poor life truly was in early America.

Not always the miserable man he was reputed to be, Girard liked children and willed the majority of his estate to establish a college for orphans. Converted to vegetarianism in his older years, and a nature enthusiast who spent most of his later days on his Delaware River farm, Girard was convinced "to rest is to rust." He stated a month before his death, "When death comes for me he will find me busy, unless I am asleep. If I thought I was going to die tomorrow, I should nevertheless plant a tree today." It's likely he did.

Girard had no road map of prior travelers in banking and finance to follow. He was a pioneer. He was also the essence of the early American rugged individualist who could deal equally with pirates or politicians (much the same), but also with bankers and merchants. The future is always rugged, and there are always modern era pirates, politicians and bankers to get in your way. But the good news from Girard's life is that in many ways the future is always an unmapped path, and any of us have just as good a chance to lead the way now as he had then.

Landlord of N. Y., *Blue Ribbon Books, 1929*

JOHN JACOB ASTOR

A ONE-MAN CONGLOMERATION

A stout, thick-headed German, John Jacob Astor had his finger in practically every profitable pie of the early 1800s. Fur, shipping, money-lending, real estate, railroads—if it was profitable and safe, Astor bought it. At his death in 1848, he left some \$30 million, though his lawyers claimed it was as little as \$8 million—and the public estimate was as high as \$150 million! Astor was among his era's most controversial figures because of his millions—and the methods by which he earned them. Upon his death, in fact, a *New York Herald* editor proclaimed that half of Astor's estate should go to the people of New York City for having augmented his properties' values. Astor probably chuckled in his grave!

Born in Waldorf, Germany to a butcher in 1763, Astor never took public uproar too seriously. He was stubborn and gruff in manner, which is why he had the gall to go through with this very telling real estate deal: One day, a lawyer told Astor that over 50,000 acres in New York's Putnam County did not legally belong to the 700 families that had purchased their farms from the state 50 years earlier. The land had been illegally confiscated from Roger Morris. Astor immediately bought off the Morris heirs for about \$100,000, then notified the 700 farmers that they were trespassing on his property! The dumbfounded farmers ran to the state, which at first refused to recognize Astor's claim, but after lengthy legal battles, Astor won $500,000 from the state in 1827!

In keeping with his ruthless reputation, "the landlord of New York" foreclosed mortgages at the drop of a hat and bought properties for fractions of their value whenever hard times hit. Even on his deathbed, he was concerned with collecting the rent. In one case, when Astor inquired about a particular tenant's rent, his agent replied that the rent could not be paid due to a misfortune. "No, no, I tell you she can pay it; and she will pay it!" Astor screamed. When the agent told the story to Astor's son, the son forked over the "rent" for the agent to give to his father. Waving the money around with a smug grin on his face, Astor said in his thick German accent, "There! I told you she would pay it!

Standing 5′9″ with a high, square forehead and long silver hair, Astor came to America at age 20 with seven flutes to sell and speaking broken English. After unloading his flutes, he married and went on to build a small fortune in the fur trade. He bought off government employees and politicians to receive exclusive rights and a virtual monopoly in America's fur industry. Having put together the monopoly in a string of seemingly unrelated deals, he then incorporated the American Fur Company in 1808 as a holding company. He then taught Wall Street one of its early lessons in stock watering and cheating employees. He formed a relatively unimportant subsidiary and distributed some of its stock to a few partners and employees to heighten their interest in the firm—and maximize their use. It was eventually dissolved. Throughout his life he had a knack for using people for all they were worth.

In the fur industry, Astor made trading an art form. It was easy. In order to buy skins cheaply, he had his traders get Native Americans (his main suppliers) drunk before trading. To keep a handle on his traders, he paid them cheaply—not in money, but in overpriced goods sold at Astor's stores. To check politicians and legal watchdogs, he kept a stream of top-notch lawyers on hand. And while there was nothing wrong with it, he shrewdly boosted his profits further by shipping his furs overseas, where they sold for five times the profit. And, naturally, rather than watch an empty ship cross the Atlantic, Astor started up his shipping business and trade with China.

Some of his more sedate dealings were in stocks and banking. Ever-faithful to the American economy, Astor bought state and federal government securities for years. During the War of 1812, he and **Stephen Girard** joined to loan the government millions. They bought blocks of bonds priced from 80 to 82 cents on the dollar, paying for them in bank notes worth half their face value! Four years later, he helped arrange the Ohio canal loan and invested heavily in New York, Pennsylvania and Massachusetts bonds. Astor also invested in both the first and second Bank of the United States, becoming New York branch president of the second Bank in 1816. Later, he speculated in banks, but refrained from an active role.

In Astor's old age he was sickly, often bedridden, and suffered from palsy and severe insomnia. When he died at age 85, his son and partner since 1831, William B. Astor, took over his estate and continued the legacy. Ironically enough, Astor's namesake, John Jacob, Jr., who was supposed to be groomed for business, was born mentally deficient.

In all fairness Astor was doing rough things in a primitive world. He didn't break the law or defy convention. What he did in the early 1800s was help establish the conventions that would rule Wall Street into the later 19th century. The stories condemning Astor most likely abound because he died at the onset of muckraking in 1848, and because in a very rough world and one with few rules, he was the richest and most successful man of his time.

AMS Press, Inc.

CORNELIUS VANDERBILT

A MAN ABOVE THE LAW

Cornelius Vanderbilt did what he damn well pleased. When his wife refused to move his family to Manhattan from Staten Island, she was promptly committed to an insane asylum until she changed her mind. Several months later, she obediently scurried to her relocated family. In his later years, he played cards all night long and meditated with mediums. Some attributed his eccentricities to his old age—he was 83 when he died in 1877—but his wife knew he did just what he wanted.

The hulking, fiery-eyed, and pink-cheeked Vanderbilt was no old coot—in fact, quite the opposite. A bright, ambitious, never-take-no-for-an-answer go-getter, "the Commodore" built his fortune by sheer persistence, first in shipping, then—at 70, on the wave of the future—railroads. Always ready for a fight and letting no one get in his way, Vanderbilt woke each dawn, fueled himself with three egg yolks, a lamb chop, and tea with 12 lumps of sugar, and planned his schemes for the day. Stock watering, bribery, and stock corners were all methods to his madness, but for good reason. "My God, you don't suppose you can run a railroad in accordance with the statutes of New York, do you?"

The Commodore taught the financial world how to corner stocks, something illegal these days. But back then it was quite a feat. In 1863, when the Commodore first started buying railroad stock, he was practically laughed off Wall Street. They saw an old shipping magnate who knew absolutely nothing about the rails and, to top it off, he was buying up the depressed Harlem and Hudson River lines! Let them laugh, Vanderbilt roared—he never gave a hoot for public opinion. He gained control of the two lines in hopes of merging them. Then he set about getting what he wanted, obtaining a charter from Manhattan politicos through bribery to connect the Harlem line with city streetcars.

As a result, the stock zoomed, attracting **Daniel Drew** and the same city politicos. Licking their chops, Drew and his corrupt cronies sold Hudson short, then prepared to reneg on the charter, while the old Commodore bought all he could. When the streetcar charter was canceled, the stock dropped and Drew's group further sold short at 75—but when they tried to buy back their stock, they found Vanderbilt had cornered it! Harlem jumped to 179 and Vanderbilt settled at top price, letting the group off the hook for a million and Drew, $4 million.

Wall Street still giggled at him—but not after 1864! As state legislators considered a bill allowing his Harlem-Hudson merger, they pocketed his bribes. Then, sniffing quick profits, they called in Drew to lead them in again selling the Harlem short at 150. The bill was naturally defeated, causing the Harlem to plummet. Drew's group waited until it reached 50 before covering its shorts. Meanwhile, as it fell, Vanderbilt bought and bought until he had accepted 27,000 more shares than actually existed. He had cornered Harlem again!

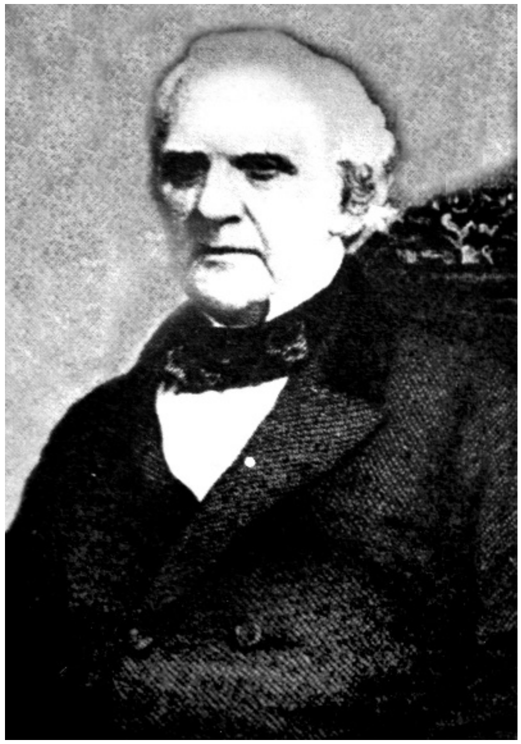
The old Commodore whistled to the defeated Drew, "Don't you never buy anything you don't want, nor sell anything you hain't got!" This time the stock jumped to 285, knocking the bears to their knees, but the Commodore wasn't satisfied. Heartlessly he cried, "Put it up to 1,000. This panel game is being tried too often," but in light of an overall panicky stock market, and one particularly spooked by the Commodore's corner, the old coot settled at 285.

Vanderbilt bought bankrupt railroads and made them pay. He replaced old iron tracks with steel and built New York's Grand Central Station—because they were good for business and built earnings. While he claimed, "I am a friend of the iron road," he was equally a friend of stock-watering schemes. For example, The New York Central, which remained in the Vanderbilt family for years, was watered twice by $23 million. The first time he cranked out bogus new shares at midnight in a secluded basement. "I never tell what I am going to do 'til I have done it." So, when his roads finally paid, you were certain the public was also paying. When he raised dividends called for by the newly-created "water" shares, freight rates were jacked up sky-high, repairs postponed, and employee wages cut.

The Commodore practiced his ruthless ways for over 50 years. Once, early on, while still engaged in shipping and sidetracked by a rare vacation in his lavish, specially built yacht, he came back to find that his partners had ousted him from his firm. The classic Vanderbilt response? "I won't sue you for the law is too slow. I will ruin you!" His demeanor rubbed off on at least one of his 12 children. **William Henry Vanderbilt**, his son and heir to three-quarters of his fortune, was known to revile the public as much as his father did, once screaming, "Let the public be damned!" And pretty regularly it was.

The Commodore's harsh, sometimes lawless tactics paid off. It certainly didn't bother him. He was a vain man who thought he superseded law. "Law! What do I care about law? Hain't I got the power?" Vanderbilt got just what he wanted—over $100 million—but, aside from that, he lived in hell. In his old age his only pleasures were chasing young female servants around his room as best he could and yelling at his doctors while throwing hot water bottles at them. Despite his riches, he was a classic crotchety and dirty old man. His energetic youth gave way to a handful of illnesses—his kidney, intestines, liver, and stomach were all used up. He once told a doctor, who I'll bet couldn't sympathize, "If all the devils in hell were contracted in me I could not have suffered any more."

There is a hidden message in Vanderbilt's life. Just as he said, the markets are more powerful than the law. While it is less true now than in Vanderbilt's day, it is still true today. Those who have economic power and skirt the law for their own benefit are rarely brought legally leveled to their original condition or worse, unlike what happens to other kinds of criminals. For example, the amazing thing about all the 1980s insider trading trials is how light the sentencing was and how few of those convicted ended up less than very rich. Most American poor folk may well think these modern-era Commodores did pretty well for themselves over the course of their lives. But smiling from his grave. Commodore probably just muttered, "Hain't done what I coulda done—hain't even done what I did."


AMS Press, Inc.

GEORGE PEABODY

A FINDER OF FINANCING AND FINANCIERS

Before there was Morgan, there was Peabody. George Peabody. He started out as a Baltimore dry goods merchant, then left his native America in 1835 to become one of the most powerful merchant investment bankers in England. Hard work, dedication, and a willingness to take a chance gained him a topnotch reputation in both Europe and America. He accumulated over $10 million before dying in 1869, leaving an empire that eventually led to the rise of the all-powerful House of Morgan.

Peabody's transformation from merchant to merchant banker was ambitious, but not atypical at the time. Many bankers' businesses grew as an outgrowth of their mercantile businesses—for example, financing ships' voyages abroad and selling their cargoes. Peabody had good credit, capital, and a knowledge of world commerce and banking houses—he had been dealing with them for years in the dry goods firm. He did lots of banking-type favors for friends, including selling stock in London that an American friend had left with him, watching over others' investments, and writing letters of credit for travelers. He was trusted—so trusted, that his name was a source of credit for friends in either country.

Serious, sedate, and sincere, Peabody began building his house piece-by-piece with American securities, selling them in the London market, where he came to be known as the expert in American securities. An American himself, he symbolized security, integrity, and stability, and that reflected well on his wares. During periods of declining confidence in America, Peabody "bought American" himself, investing in the Bank of the United States, busy canal companies, insurance firms, and railroads. He bought cheaply, on a large scale, between 1837 and 1843, after the famous Panic of 1837. During the tremendously long and deep economic depression that followed, he made a fortune when the stocks jumped in value.

Peabody believed that in the long run, American investments meant sound investments. So, naturally, when it came to underwriting bond issues and selling them in the London market, he was quite a convincing salesman—he truly believed in his products. To push things along, Peabody promoted American securities through excellent English-American business relations. He threw elegant parties in the poshest places whenever Americans visited and though he usually drank little and ate plain food, he made merry for the sake of advertising America, its people, and its products.

Peabody had tremendous success during his career, not only because of his salesmanship, but also because of his optimism. But optimism wasn't nearly enough in the case of an $8 million bond issue meant to finance construction of Maryland's Baltimore and Ohio Railroad in 1838. Appointed one of three financiers to float the issue, Peabody had a bad time of it due to America's poor financial condition following the Panic of 1837. Mention Uncle Sam to an Englishman, and he went running! America was on its knees for years after the panic, which meant a greater chance to default on loans and interest payments.

Like a broken record, persistent Peabody repeated his America-is-a-good-investment spiel, and finally he unloaded the bonds on the Baring Brothers at a ridiculously low price—which should have made him feel good. But it didn't. The fact that Maryland had urged him to sell at any price left him uneasy. In 1841, his uneasiness was confirmed when Maryland defaulted on the bonds.

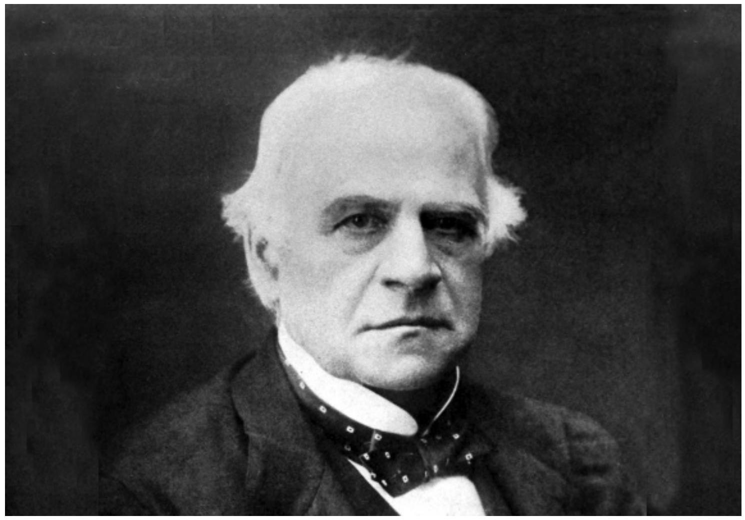
Tall, stout, and good-looking with clear blue eyes and black hair which he dyed, Peabody's personal life was equally uneasy. Though he was seemingly London's most eligible bachelor, he remained single all his life. He tried to marry a 19-year-old American at 43, but she never went through with the wedding—she loved another. Forlorn Peabody never married, but instead kept a rigorous work schedule—10 hours per day, and often evenings and Sundays. He never took a day off until 1853! He also kept a long-time mistress, with whom he had a daughter, tucked away in Brighton, England. By some folks' standards that would be better than getting married.

In America, as well as England, Peabody had a reputation bigger than life. During the Civil War, the Confederate government called on him to negotiate a loan for them in England, which was chock full of Confederate sympathizers—but because of political feelings, he declined. At that stage in his life, he could well afford to pick and choose his business. So the Confederates sought the loan themselves, calling on London capitalists for $75 million in exchange for their bonds at 50 cents on the dollar. Queasy about granting the loan without the American securities expert's blessing, two of the Londoners relayed the proposition to Peabody who said he believed the bonds could be bought for 25 cents on the dollar within a year.

"To prove that I am sincere, I will stipulate to sell you a million dollars worth in one year from today at 25 cents on the dollar." So the men declined the Confederates' deal and took Peabody up on his. Sure enough, "the year came round and Confederate bonds were worth less than even I anticipated," Peabody wrote. He held the men to their deal and collected $60,000!

Hurting from gout and rheumatism, Peabody allowed himself to take a breather from work. During the last years of his life, he went to spas, visited friends, and went salmon fishing, besides giving most of his money away. He was known for his generosity to the people of both his countries; endowing schools, libraries, museums, and people. Peabody, Massachusetts, which was once called South Danvers, was named after him in honor of his birthplace and donations.

In addition to his large donations, Peabody is most well known—on Wall Street—for giving **Junius Spencer Morgan** (**J.P. Morgan**'s father) his start in investment banking. A great judge of character and a bit of a visionary, Peabody selected Morgan as his partner in 1854, allowing Peabody to take a breather from the firm. What he looked for in his partner were qualities he himself parlayed: integrity, daring on occasion, caution, and a shrewd mind. But Peabody represented much more than giving a boost to the long line of Morgan leaders. He brought us much-needed European money, in large chunks, without which we wouldn't have developed the infrastructure which subsequently let us develop industrially in the 19th century. Industry follows finance, and everybody followed Peabody.



J. Spencer Morgan, An Intimate Portrait, *1890*

JUNIUS SPENCER MORGAN

THE LAST OF THE MODERN MANIPULATORS

Junius Morgan was the first to make the Morgan name what it came to stand for under his only son, **J.P. Morgan**—integrity, trust, competence and power. Standing over six feet tall, with a strong frame, sharply defined features and a straightforward, trustworthy manner. Morgan challenged London's established banking firms and eventually surpassed them, becoming the most important American banker in London in the 1860s. When he died, he left his son an international legacy and his old-fashioned business ethics—a firm basis on which to build the infamous House of Morgan.

Born in 1813 the only son of a wealthy landowner-investor, Morgan grew up in West Springfield, Connecticut, well educated and surrounded by his father's sound investments. He was no stranger to success. Still, he worked hard to climb up the ladder, first interning at a Wall Street banking house for five years. At age 20 he became a partner in Ketchum, Morgan & Company. But when he learned his partner was an unscrupulous speculator engaged in shady deals, Morgan immediately escaped the partnership and began again on the right track, settling in New England, marrying and starting a family of one son and two daughters. (The son, of course, was J.P. Morgan.)

Morgan climbed his way to the top via the country's premier wholesale dry goods and importing house, James M. Beebe & Company, which became J.M. Beebe, Morgan & Company in 1851. In those days, importing and finance were very close to each other since it was impossible to import without financing. He became known for his integrity, firmness, and fairness and was well on his way to prominence in American finance, financing Boston's bustling clipper ship trade with Europe and Asia. But while in London discussing his firm's credit account with **George Peabody** of the highly respected London merchant banking firm Peabody & Company, Morgan traded in his American dream for a chance at the big time after Peabody made him an offer he couldn't refuse.

A former dry goods importer like Morgan, Peabody specialized in underwriting and selling American securities overseas, but was looking to retire and needed a replacement he could trust. Though Peabody was picky, he saw in Morgan the drive, ambition and dedication needed to follow in his own ambitious footsteps. Morgan, in turn, saw a chance to increase his already large fortune and, better still, link English capital to New England needs. So he made the plunge, packing up his family at age 38 and heading overseas to a new world.

Morgan quickly mastered the typical merchant bankers' trade—providing credit for the world's expanding trade business, trading commodities, shipping bullion, exchanging currencies, and financing importers and exporters. By the time the 1857 Panic hit in America, Morgan was ready to take action. Since Peabody & Company was closely linked with American securities, the panic had drained the firm's bank account; American creditors could not pay money they owed Peabody & Company—money the firm used to pay its own debts. Morgan solved the problem by negotiating a loan for the firm from the Bank of England—a loan so prestigious it might as well have been the Queen's blessing!

Feeling he was in good hands, Peabody gradually withdrew from the firm and Morgan's flair began to flavor the firm (renamed J.S. Morgan & Company once Peabody fully retired). Though he continued trading in the usual—spices, tea, coffee, wheat, flour, sugar, and the like—he saw to it that the firm's most important commodity was American railroads. Railroad construction was so expensive that America was forced to rely on European capital—and that suited Morgan just fine.

Peabody had been dabbling in railroads and railroad materials such as iron for some time, but Morgan knew America was beginning to depend on a sprawling railroad network. He dove headfirst into railroad financing, taking carefully calculated risks (his trademark). For example, he negotiated the sale of a $4 million bond issue for the Erie Railroad when Erie credit was at an all-time low, making it one of the first large American rail offerings in the London market and the most profitable. By the 1850s, his clients included most major lines: the New York Central, Illinois Central and Baltimore & Ohio.

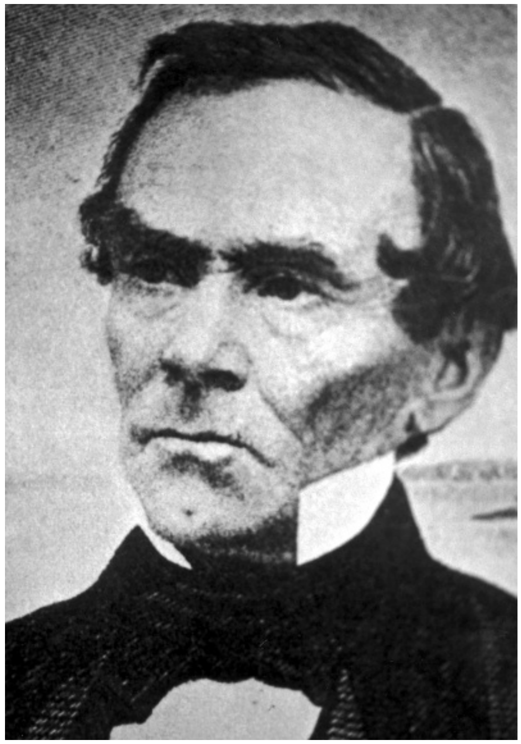
Meanwhile, Junius' only son, J.P., was coming of age and searching for his own place in Wall Street. But his father, even though in Europe, still had tremendous influence in his son's life via the mail. Between 1857 and 1890, the two passed back and forth lengthy letters (often a dozen pages long) containing their most intimate and confidential thoughts. Junius catalogued his son's letters in yearly, leather-bound volumes that were locked and shelved in his library.

In a typical letter, Junius wrote to his young son, "I want you to bring your mind quietly down to the regular details of business. I do not like it (to) be excited by anything outside, and I would recommend your forming a resolution never to buy any stock on speculation." But such fatherly advice surely didn't warrant the letters' destruction—you could only imagine what the young son must have written to his father! J.P., who at one point was Peabody's confidential agent, renewing magazine subscriptions as well as negotiating loans for the Illinois Central, crammed into his letters political and economic developments, and perhaps a few entrepreneurial ideas of his own. You can't help but hear J.P. telling his father of his hopes for Wall Street—and Junius' empowering replies! Sadly, particularly for historians, J.P. got his hands on the volumes when his father died and tossed them all into his blazing fireplace one by one.

Junius became a true power in international finance in 1870 with his famous French loan following the Franco-Prussian War. He organized a syndicate—when syndicates were still recent innovations—to float $50 million when no one else would. "This was no gamble," he later told the *New York Tribune*. "I thought it was a safe operation." He floated the loan at a low interest rate but high commission rate, and within a week European investors clamored to invest.

The next year, however, Morgan was forced to buy back large amounts of the issue at heavy discount when Prussia threatened to make the loan's repudiation a condition of peace. So in 1873, when a defeated France redeemed the entire issue at par, Morgan made a killing. Altogether his firm netted 15 percent of the issue's par value through commissions and the resale of bonds bought at discount. Aside from profits though, the loan boosted Morgan into the upper echelon of private international bankers.

While Morgan—who died in 1890 after falling off his horse-drawn carriage near the Italian border—must be remembered for laying the foundation for the House of Morgan, he also had great significance in linking the flow of European money to America at a time when America needed it most. At the onset of the great railroad development, Morgan financed huge deals that would have been too big for financiers in America had they had no European help. Railroad development would have been slowed greatly, which in turn would have slowed America's industrial progress. And slow industrial progress would, in turn, have left J.P. Morgan twiddling his thumbs at his giant Wall Street desk!



AMS Press, Inc., 1969

DANIEL DREW

MUCH "TO DREW" ABOUT NOTHING

Friendship is okay for weekends, but when Monday rolls around, forget about it. Daniel Drew did. He had no friends to speak of—when he did, he double crossed them. This shifty-eyed scoundrel was a Wall Street tiger, both powerful and biting. But, as they say, what goes around, comes around, and that's exactly what happened to Uncle Dan'l.

Drew was the market's first major speculator to venture inside business. Instead of just buying and selling stock as a speculator, he was the first of what we today would see as takeover artists, using the stock market as a way to acquire controlling interests in businesses, then get inside them and alter their destiny.

Illiterate and a religious zealot, Drew speculated in railroads, most notably the Erie, operating by trickery and gut instinct. "I got to be a millionaire afore I know'd it hardly." Drew typically printed and sold company stock when needed, raided the market when he caught the scent of cash and used deceit when desperate. A truly ruthless man, Drew coveted his enviable insider position. The irony is that a man so religious could be so dishonest. He even went so far as to plant phony buy orders, "dropping" them and leaving the tickets behind during lunch at an eatery frequented by speculators; once the crowd started buying on his coattails—as he knew they would—he sold all they could handle!

Whenever Drew was hounded for "insider" tips, which was all the time, he would finally relent, give a false tip, and extract a vow of secrecy from the recipient. The tip would always be exactly the reverse of what Drew himself planned to do. Of course, once the coattailer bought or sold according to Drew's instruction, he could never keep his mouth shut, and all manner of too-greedy and seedy operators would jump on the bandwagon. Drew, in waiting, would double cross the entire lot of them with huge disguised orders that ripped through the price like a razor to paper, giving himself a tidy little profit and them, perhaps, a useful education. It may have been Drew who inspired the following saying:

> The stock market is a place where a man with experience gains money and a man with money gains some experience.

A War of 1812 veteran, Drew discovered Wall Street tactics as a cattledriver in 1813. He was 16 and acquired cattle by smooth-talking local Carmel, New York farmers. Having little money to actually buy cattle, he bought the cattle on credit, but never actually paid for them. As he drove his stock to Manhattan for slaughter, he stumbled upon the benefits of "watering stock"—feeding his cattle salt, then watering the thirsty critters prior to their weigh-in at purchase time.

When butchers like Henry Astor suspected his scam, Drew switched to steamboats, buying a dilapidated tub in 1834, and calling himself a steamboat line. Steamboat magnate Cornelius Vanderbilt called Drew a nuisance when he announced cutthroat fares on the Hudson, forcing Vanderbilt to buy his line for a tidy sum. In 1845, he formed Drew, Robinson & Co. and joined in bull and bear stock market raids preceding the 1857 Panic.

In 1857, at age 60, his firm was a dozen years old. Drew was no spring chicken, but his trickery and avarice were ripe for market mischief. So, the Bible-spewing Drew dissolved the firm and began operating alone. He single-handedly seized control of financially-ruined Erie—he said "Airy"—in 1857. Controlling Erie's board, Drew easily manipulated company stock, printing up fresh batches whenever he sold short. He had an entire treasury to do with as he pleased! Nine years later, Drew met budding market manipulators young **Jim Fisk** and **Jay Gould**, his ultimate rivals. Liking them, Drew as a mentor unknowingly let them in on his plans and taught them his treacherous ways.

The Erie War was waged between 1866 and 1868 with Drew and his two-man army charging full force against their foe, Vanderbilt, who stupidly initiated the battle. At first, Vanderbilt bought Erie heavily in hopes of monopolizing Manhattan railways—and just as he thought he had controlling interest, Drew pounced, initiating a bear raid. Drew loaned Erie \$3.5 million, received 28,000 unissued shares and \$3 million in convertibles, then flooded the market. Vanderbilt, a typical bull, bought heavily, but what he didn't know was that he was buying stock watered by Drew, just like the old cattle trick.

Merrily Drew chanted, "He who sells what isn't his'n must buy it back or go to pris'n!" Silently printing stock was far easier than selling short. Sensing a scam, Vanderbilt's well-bought "pocket" judge issued an injunction prohibiting Erie directors from issuing more stock. Ultimately, it was Gould who took care of the injunction by greasing a few palms. Gould then took to the printing press, dumping an additional 100,000 shares on the market.

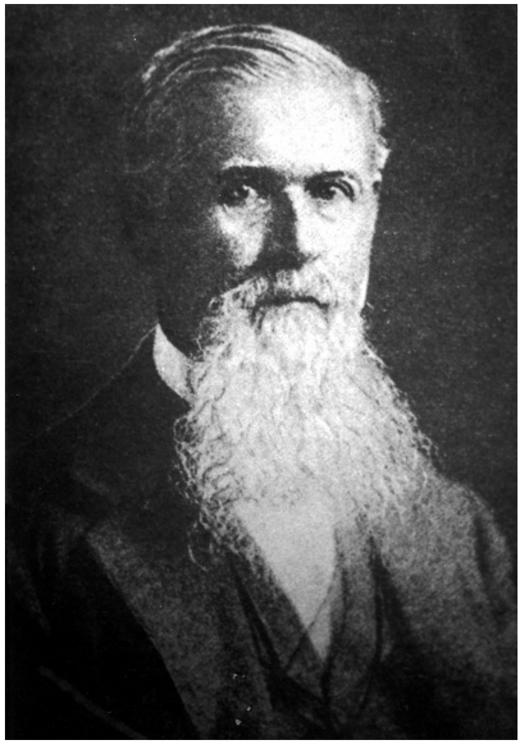
Vanderbilt roared, and soon Drew, Gould and Fisk were wanted for arrest, again courtesy of Vanderbilt's judge. To escape arrest they "crossed the border" to Jersey City. But after a month, the now 71-year-old Drew felt homesick. He was intrigued when he received a private Vanderbilt note that read, "Drew: I'm sick of the whole damned business. Come and see me." So, while Fisk frolicked at the hotel with his mistress and Gould attempted to undo warrants for their arrest via bribery, Drew—on the sly—ferried back to Vanderbilt's quarters to fix the situation. Vanderbilt and Drew settled on a deal to pay back the loser's losses out of the Erie Treasury—Vanderbilt didn't really care where the money came from. But Gould and Fisk discovered the deal and fumed, deciding to honor the Vanderbilt-Drew deal—but oust Drew from the Erie. They successfully extracted their pounds of flesh from Drew in a treacherous stockwatering bear raid that drove Erie stock below Drew's margin call price, forcing Drew to take losses. They gave to Drew an ironic taste of his own medicine.

But Drew was not broke. He still had about $13 million. And he was still an operator. Stripped of his golden goose and, with his vicious character exposed, he aroused suspicion in his fellow Wall Street insiders. On one occasion, Drew used this suspicion to his advantage, setting a past associate up for a big fall. He tipped the sucker to an impending Erie bear raid while he himself sold heavily. When the sucker suspected Drew's plan—despite Drew's denials—he locked Drew and himself in Drew's office to see if the market was still supplied with Erie when Drew was out of circulation. Ever street-wise, Drew out thought his suspicious sucker. Pretending to be hurt by this loss of faith, Drew started a heated argument with the man and, enraged, banged on the table. Little did the man know that each bang told his brokers to sell 1,000 shares of Erie!

Shunned by Wall Street, Drew came to a rapid decline. Gould and Fisk falsely refriended him and again included him in an Erie bear movement, tempting Drew to sell heavily short. But at the last minute they bulled, leaving him 70,000 shares in the hole. Drew lost $1.5 million. When he begged for mercy, they laughed! Slower and less adept, the 76-year-old former cattle swindler lost everything in railroad speculation in the 1873 Panic. While this panic was among the largest and longest running declines of U.S. economic history, in his prime, Drew would have almost certainly sidestepped it with fast footwork and deceit. At 76, he was too slow. In filing bankruptcy he tallied debts exceeding $1 million and assets less than $500. He spent the remainder of his 82-year life as a Wall Street outsider and as squirrel bait in his hometown. Back in Putnam County, where Drew had deceived many a cattleman 60 years ago, decrepit farmers, one of them over a hundred years old, nipped at his skin, demanding their age-old payments. Drew was haunted by his sins and died a forgotten man. Not even the newspapers mentioned his death.

Drew was a sad case in many ways. His wife and son seemed relatively unimportant to him. He never built friendships. He had no major social interests, and in a rare instance of charity, while creating Drew Seminary (now Drew University), he welched on his financial commitments to the institution. If he were the type of philanderer that Jim Fisk embodied, or if he had died rich, he would be easy to despise. But pity is better placed.

The lessons of his life? There are lots—the simple ones your mother taught you as a child—the lessons of his mistakes. Start out with a good education and play by the rules—he didn't. Quit while you're ahead, before you've stayed at the game too long—he didn't. He who doesn't build enduring associations doesn't build much. What your mother may not have told you, because she probably never thought about it, is that swindlers get swindled eventually. Old swindlers get swindled sooner.



AMS Press, Inc., 1969

JAY COOKE

STICK TO YOUR KNITTING

From a dank and dingy office on Philly's waterfront, where wharf rats scurried on sweltering days, flowed the millions of dollars used to finance America's Civil War. This was the office of government fiscal agent Jay Cooke & Co., wartime America's most respected banking house whose founder helped mold today's banking system. A fierce patriot and believer in the American economy, Jay Cooke floated the war debt creatively, advertising bond issues and selling bonds door-to-door to small investors. Known as "the tycoon," Cooke was a charismatic, imaginative banker who used innovative ways to boost our economy.

In a seemingly dubious era—just as Lincoln was elected President and North–South tensions ripened—Cooke, 39, began his firm in 1861. He climbed to primary floater of the war debt by being resourceful, focused, confident, a little daring—and it didn't hurt to have a partner and brother who knew Treasury Secretary Salmon P. Chase! Always keeping an eye on the Treasury prize, Cooke declined profitable propositions to speculate in government supplies. Instead, he stuck to his knitting and flaunted his revolutionary distribution methods, obtaining a $3 million loan for Pennsylvania, hurdling the state's notorious credit by distributing bonds in nearly every state of the Union. So, in 1863, when the Civil War broke out, Jay Cooke & Co. was solely awarded Chase's Treasury business—his just reward for such fierce focus.

Cooke worked miracles for Uncle Sam, selling millions of war bonds to a seemingly unlimited market of ordinary people who had never before heard of stocks or bonds. He literally and skillfully brought Wall Street to middle-class America's doorsteps for the first time, appealing to citizens' patriotism and using rather unorthodox methods. His most grandiose scheme, surrounding a $500 million issue (underwritten by a syndicate of Wall Street's major houses), consisted of 2,500 canvassers touring the country door-to-door, personally soliciting investors. In another instance, Cooke, also an engaging speaker, advertised in over 1,800 newspapers to promote bonds. He was amazingly resourceful and always optimistic. By 1864, over 600,000 people owned shares in the war debt, all of which had passed through his firm's hands! A year later, at war's end, Cooke sold another $600 million in bonds—no other banker even came close. He was hailed by the press as "savior of the nation."

Born in 1821 the son of an Ohio lawyer and congressman, Cooke was known as a fiercely patriotic man and sincere in his dealings. An Episcopalian and Republican, he nurtured a clean, dignified public image, conducting business openly, firmly, and fairly (uncommon back then). Marrying in 1844, he built a family of four kids, including a minister and a banker, Jay, Jr. (Cooke's grandson, Jay, III, was also a well-known investment banker in his own right.) Lesser known is that Cooke, who went to work at 14, was an avid advocate of national banking to provide uniform currency. A former "counterfeit clerk" in the days of wildcat banking, Cooke remembered days of common counterfeiting and frequent bank failures. So, naturally, he supported Chase's National Banking Act of 1863, helping organize many of the first national banks.

But after phenomenal success during wartime, Cooke lost focus and conformed to the times—his biggest mistake. Easing his reins on the government, where his skills truly lay, he delved into railroads, particularly the yet-to-be-built transcontinental Northern Pacific in 1869. Through his N.Y. and London offices, he floated $100 million for the line overseas in his ballyhooed fashion, buying newspapers and a reporter to promote his project. The more he became involved with his railroad, the less he focused on his forte—government financing. So, when the line never got off the ground, Cooke woke up to find that most of his government refunding operations had been wrestled away by the Morgan-Drexel group and that most of his money tied up in the Northern Pacific was gone!

Cooke's funds dwindled quickly, leading to Jay Cooke & Co.'s failure at the onset of the Panic of 1873. The firm's failure hit Wall Street like a thunderbolt, leaving Morgan to take the reins of leadership for the next few decades. The once-regaled nation's savior disintegrated, destined to deal in only small-time ventures until his death in 1905. What happened? How did Cooke manage to go belly-up after years of proven success? We learn from Cooke three simple little lessons—Don't falter in your focus after consistent success; don't go with the flow; and never put all your eggs in one basket. Not terribly difficult lessons, but important ones.

Cooke, the first to make large underwritings possible, ventured into new ground when he took on operating a railroad, leaving his specialty—government financing—fair game for the likes of Morgan. He was a financier and promoter, never a manager—so why try to be one at 48? Then, he disregarded diversification! If it wasn't stupid enough gambling his meal ticket on a new trick, Cooke went a step further, betting it all on one trick! By dumping his firm's funds solely in the Northern Pacific, he took the big fall when the line went under.

Worst of all, Cooke lost his head in the excitement and rigamarole that surrounded the transcontinental race. His imagination getting the best of him, Cooke got caught up in his own promotions, compromising himself and the firm he had nurtured for years! He lost his focus, walked the wire, took the gamble—and lost. Maybe if he hadn't ignored his original golden goose, his would have remained the preeminent name on Wall Street, instead of Morgan's. Now, Cooke is just a long-lost lesson to be learned.