~ 1908 ~

It is not to be expected, or even hoped, that our industries will at once, or in the very near future, rebound to the dangerous height where they were when the recent crash came. And it is not necessary that they should reach this high-pressure point in order to give employment to our workers and good business to our factories, our merchants, and our transportation lines.

—FRANK A. MUNSEY, *Munsey's Magazine*

Once more, as in the "boom times" of 1901 and 1906, Wall Street began to hear of a group of enormously wealthy financiers engaging in speculation on an extensive scale, and of obscure speculators who had made sudden fortunes.

—*The Nation*

Confidence returned gradually during the past year and its first sign was naturally a long rally in the stock market. This was a result and not a cause, although some observers seem to think that an advance in stocks by itself can be used as an instrument to create real wealth. It need hardly be said that you cannot create summer weather by warming the bulb of the thermometer.

—*Wall Street Journal*

Crash and Burn

On the theory that markets always swing back from extremes, an investor might try to catch the Very Good Years by buying stocks whenever a Very Bad Year has just ended. History doesn't endorse such a strategy, however. For example, the Dow Jones Industrial Average's 17 percent decline in 1929, the year of the Great Crash, was followed by a 34 percent drop in 1930. The index lost 53 percent of its remaining value in 1931. Then, after three consecutive bearish years, investors were punished yet again for assuming that whatever goes down must go up: In 1932, industrials plummeted by 23 percent. Nor is it the case that upswings are invariably preceded by downturns. For instance, 1928 was one of the twentieth century's 10 best years, but so was 1927. Like all simple trading rules, buying on big dips is far from an infallible approach.

That being said, an utter collapse in prices can create a lot of up side. Had the Great Panic of 1907 not occurred, 1908 probably would have been a good but not an extraordinary year for stocks. Instead, 1908 began with a huge potential performance bonus in the form of severely depressed prices. From December 31, 1906, to December 31, 1907, the Dow industrials lost 38 percent of their value. Railroads, which figured more prominently in the investors' activities than in later decades, dropped by 32 percent.

Actually, the massive decline of 1907 consisted of two distinct events. March's stock market crash was followed by a money panic in October, which spilled over into further declines in share prices. Neither incident inflicted fundamental damage on the longer-run growth of the U.S. economy. Merchants and industrialists shrugged off the March episode as a Wall Street affair with little relevance to general business activity. Astute market watchers correctly perceived that the repercussions of the October crisis would be temporary. "This panic did not come about from a congestion of manufactured articles, as has been the case on other recessions," wrote Frank Munsey, in *Munsey's Magazine*. "WE HAD NOT overdone our manufacturing. Our warehouses were not glutted with stocks of unsold goods. On the contrary, most manufacturers were running overtime, and turning out products to the limit of their capacity, and even then could not meet the demand." One indisputable effect of the 1907 upheavals, however, was to eliminate high stock valuations that would have precluded a sensational bull market in 1908.

The events of both March and October ultimately derived from a worldwide credit shortage. It was the heyday of the gold standard, which continued until 1914. Under that system, expansion of the world's money supply was limited by the physical supply of the yellow metal. New discoveries enabled the annual production of gold to grow sharply during the 1890s, but after the turn of the century the volume began to level off. Meanwhile, demand for credit grew vigorously. Increasing prosperity sparked ambitious investments in transportation and in manufacturing capacity. Great business combinations, such as the formation of U.S. Steel in 1901, required vast sums of capital to pay the entrepreneurs who sold out to the consolidators. Furthermore, the Boer War (1899–1902) and the Russo-Japanese War (1904–1905) resulted in massive governmental borrowing. On top of all these bidders for a finite supply of credit, speculators took out loans to buy securities as stock markets boomed all over the world. As Frank Munsey put it, "There isn't money enough in the world today to do the world's work."

By 1906, the strains were apparent. The cost of loans backed by stock market collateral ("call loans") fluctuated wildly. At times, the annualized rates soared to 20 percent, 30 percent, and even occasionally to 100 percent. Level-headed analysts considered it foolhardy to borrow at 20 percent or more to buy stocks with dividend yields (at the prevailing high market prices) of only 2 percent or 3 percent. But speculators counted on making up this "negative carry" and more through continuing price advances. Capital gains fever ran high and the *Wall Street Journal* noted parallels to the conditions that led up to the Panic of 1857.

The first cracks appeared when high-quality American railroads began finding it impossible to float new long-term bonds in Europe. Faced with insolvency if they failed to roll over their maturing debts, some railroads eventually settled for domestic short-term funding at exorbitant rates. Others were wise, in Frank Munsey's view, to enter bankruptcy rather than pay whatever rate the banks demanded.

Stock prices broke on March 13. The Dow railroad index plunged from 112.53 to 107.52, then to 99.71 on the 14th. Industrials declined by 12 percent over the same two-day period. No startling event precipitated the fall, which prompted widespread margin calls and brokerage house failures. Then, as abruptly as it began, the crash ended. Stock prices didn't fully recover to their February highs, but in the case of railroads, the market was 12 percent above its March 25 low by the end of April.

Investors who peered a bit beyond the current price quotations saw that the financial strains hadn't disappeared. A series of shocks occurred during the spring and summer of 1907:

- The city of San Francisco failed to float a loan in New York, indicating that credit remained tight.
- Egypt's Alexandria Stock Exchange crashed. When London came to the rescue by shipping $3 million of gold to Alexandria, the Bank of England was left in a vulnerable state. A run on the pound ensued.
- Stocks fell sharply on the Tokyo Exchange and Japan was struck by a wave of bank failures.
- Fearful French investors began buying gold, draining huge amounts from the United States.

- President Theodore Roosevelt's administration stepped up its antitrust activities. Charging that Standard Oil of New Jersey held a near monopoly of the petroleum business, the government disclosed plans to seek its dissolution.
- Bond offerings for the cities of Boston and New York, as well as a stock offering for Westinghouse, were undersubscribed.
- The Metropolitan Traction Company, created as America's first holding company to control New York City's streetcar lines, went bankrupt.
- New York's money center banks were strained by the customary seasonal migration of funds to America's agricultural regions. This was a recurrent pattern, but the U.S. Treasury could never figure out how to use its vast gold reserves to neutralize the impact. As a consequence, interest rates invariably rose violently in autumn.

The panic began on October 15 with the collapse of a scheme to corner the stock of the United Copper Company. In a superb account of the 1907 travails, historian Robert Sobel reports that the Standard Oil interests were widely suspected of undermining the attempted short squeeze in United Copper. One of the corner's architects, Frederick Augustus Heinze, had run afoul of the group a few years earlier, when it was in the process of creating a copper trust.

United Copper's free fall from 60 to 10 brought down the financial empire of Heinze and his partner, Charles W. Morse. Investors knew that they had used depository institutions under their control to finance their failed corner. First, a run on the Mercantile National Bank forced the institution to shut its doors. Shares of Morse's ice companies nose-dived, creating wide anxiety in the market.

Westinghouse, although not tied to Heinze and Morse, was still shaky after its recently failed share offering. The electrical equipment company's stock declined from 103 to $79\frac{7}{8}$ on October 18, was suspended from trading, then opened the following day in over-the-counter trading at 35. Two brokerage houses failed as a direct result, while hundreds of speculators were ruined. Continued withdrawals worsened the banking crisis. By now, the crisis was too great for even the U.S. Treasury to contain. It was time to refer the matter to a higher authority, namely, J. Pierpont Morgan.

When My Ship Comes In

The preeminent banker of his day, Morgan had masterminded the formation of U.S. Steel and other leading industrial concerns. He had also gained a commanding position in Eastern railroad lines, which caused him to clash with Edward Harriman, the dominant Western player. Nevertheless, Harriman was among the Wall Street lions that Morgan assembled in the nation's dark hour.

Under Morgan's leadership, the group set about determining which financial institutions could still be saved, while consigning the rest to oblivion. Most immediately in danger were the trust companies. These depository institutions, later outlawed, exploited a loophole in the New York state law in order to operate without material reserves. Seen as rivals by New York's banks, most of the trust companies had been effectively banished from the Clearing House, the institution that customarily provided liquidity during banking crises. Because the New York Clearing House didn't monitor the trust companies' financials, it wasn't able to determine quickly whether it was prudent to extend credit to them when the 1907 panic hit. (In Chicago, where trust companies had always remained within the clearinghouse's surveillance, no trust companies or banks failed during the Panic.)

Morgan quickly concluded that it was pointless to try to rescue Heinze and Morse's Knickerbocker Trust Company. This judgment about New York's third largest trust company came from Benjamin Strong, who was destined to receive a large share of the blame for the 1929 Crash. When the Knickerbocker failed, amidst allegations of malfeasance, panic gripped depositors at other trust companies.

At that point, Morgan was assured by his associates that the collateral was adequate at another Heinze-Morse entity, the Trust Company of America. Replied Morgan, "Then this is the place to stop the trouble."

Curiously, the collateral in question included a controlling interest in the Tennessee Coal & Iron Company, a major U.S. Steel competitor. The investment banking house of Moore & Schley had posted the shares as security for loans it had taken when the stock market began its plunge. Morgan capitalized on the opportunity to capture Tennessee Coal & Iron for U.S. Steel, paying with bonds worth less than the already-depressed price at which Moore & Schley had been trying to bail out.

The Tennessee Coal & Iron maneuver required Theodore Roosevelt's acquiescence to a merger that he opposed on antitrust grounds. But with the President envisioning a complete financial debacle, Morgan knew he was indispensable. And he meant to be rewarded for his trouble. According to associates, he vowed, "I won't take all this on unless . . ." and concluded with a gesture that they took to mean, "unless I get what I want out of it." To convince the President that the situation remained grave, Morgan withheld the news that London was prepared to ship gold to help relieve the crisis. Roosevelt consented to U.S. Steel's acquisition of the country's lowest-cost steel mill and a half-billion tons of iron reserves.

Meanwhile, the Trust Company of America was saved by a typical Morgan stratagem. The U.S. Treasury was willing to help, but wasn't authorized to make deposits in trust companies. Morgan therefore induced Treasury Secretary George Cortelyou to deposit $35 million in the New York banks, which immediately relent the sum to the nearly insolvent Trust Company of America. Additional heroics followed. In just five minutes, Morgan arranged a $27-million emergency bank loan to save the New York Stock Exchange. When the tight money conditions persisted, he persuaded the banks to accept scrip, redeemable in bona fide money at the conclusion of the panic. Along the way, Morgan rescued the New York City government from insolvency and even prevailed upon the municipality's leading clergymen to preach bullish sermons.

On November 6, $7 million of gold arrived from London. With it came news that another $10 million worth was headed to America aboard the *Lusitania*. J. Pierpont Morgan had ended the panic, while picking up immensely valuable assets on the cheap. Most other investors had to wait until 1908 for their bonanza, which consisted of a one-year total return of 45.78 percent.

Small Fry

Among the many small investors whose margin accounts were wiped out during the Panic of 1907 was Dorothy Grossbaum of New York. To compound the disaster, her bank failed.

After a bric-a-brac business left by her late husband disintegrated, along with proceeds of his life insurance, the young widow had turned to keeping a boardinghouse and eventually to speculation. Her modest-sized account was carried by a member of the Consolidated Stock Exchange, where round lots consisted of just 10 shares, rather than 100, as on the New York Stock Exchange.

Dorothy Grossbaum's son, Benjamin, was just 11 years old in 1907. Each day, he inspected the financial pages to see whether his mother's favorite stock, U.S. Steel, had risen or fallen. It was a humble launch of the brilliant career of the Dean of Wall Street, who became known to the financial world as Ben Graham.

Big Shot

Most contemporary readers won't recognize the name of Frank Munsey, who's quoted several times in this chapter. During his lifetime (1854–1925), however, the onetime Maine telegraph operator achieved several distinctions.

One was to revolutionize the magazine publishing business by cutting the price of his flagship monthly, *Munsey's Magazine*, from 25 cents to a dime. That 1893 innovation launched the mass circulation era. Munsey parlayed his magazine profits into a fortune in real estate and grocery stores. He also speculated successfully in stocks, becoming for a time the largest shareholder of U.S. Steel.

Munsey's second distinction was being called "probably the most hated publisher that ever lived." He earned the title by firing reporters and editors on such capricious grounds as being too young, too fat, or left-handed. Perhaps owing to his peculiar management style, Munsey's dailies lost money. As a consequence, he either killed or consolidated New York's *Press*, *Sun*, *Herald*, *Tribune*, *Globe*, and *Mail*, gaining the additional designation of "the executioner of newspapers." Munsey didn't bother telling the *Herald*'s managing editor, George Lincoln, that the paper was being merged until the moment that he handed him the announcement for typesetting. As an afterthought, Munsey asked Lincoln to stay on and run the *Herald-Tribune*. Lincoln rejected the offer, saying that he regretted every moment he'd ever worked for Munsey.

Four years before his death, the lifelong bachelor made out a new will. After rattling off a number of bequests that totaled about one-sixth of Munsey's estate, his lawyer asked who ought to receive the residual. "Well, give it to the Metropolitan Museum," Munsey answered casually.

It's not clear whether Munsey ever set foot in New York's Metropolitan Museum of Art, although he was a member from 1916 onward. Making large bequests to the institution carried immense prestige, however. In addition, Munsey's lawyer was reportedly an art lover, even if Munsey was not. The museum's share of the fortune ultimately came to approximately $10 million, indicating that talk of a $40-million estate was grossly exaggerated. Nevertheless, the hated publisher's legacy was the largest cash gift ever made to any museum up until that time.

On the Road Again

The Dow Jones Industrial Average's low point for 1907 had been reached on November 15. According to *The Nation*, signs of returning credit facilities first appeared on Saturday, November 23. Helped by the revived money market, stock prices recovered by 11 percent during the panic year's final month and a half. The favorable trend was encouraged as the new year began, in typical postpanic fashion, with further easing of credit conditions. On the first working day of 1908, the Bank of England lowered its key lending rate from 7 percent, a century-high level that had arisen from strained credit conditions during 1906.

Although it was too early to discern any improvement in business conditions, the Dow industrials climbed by 12 percent during the first two weeks of the year. Railroads, which finished 1907 at 88.77, hit a short-term high of 95.75 on January 19. At that point, the bears descended, scaring general investors out of the market temporarily. For the moment, the rally stalled, with the railroads plunging to 86.04 on February 17.

Nevertheless, stocks held the gains achieved during the final weeks of 1907. The 1908 low for industrials of 58.62, which represented a negligible decline from the year-end 1907 mark of 58.75, occurred on February 13. Then, after a month-long domination by professionals bent on driving down prices, the recovery resumed.

By that time, a glimmer of optimism was returning. Week by week, merchants' inventories were being reduced or exhausted and scattered factories were resuming part- or full-time schedules. Elbert H. Gary, chairman of the executive board of U.S. Steel, reported that business was increasing rapidly. January's bookings rose by more than 20 percent over the preceding month, which had been the slowest in the corporation's seven-year history. As of late February, Gary reckoned that volume for the full month would climb by another 40 percent. (It's testimony to the magnitude of the 1907 panic that despite Big Steel's sharp rebound in the first two months of 1908, its mills were still running at less than half their rated capacity.)

The fact that the recovery in steel demand was more pronounced in manufacturing than in the railroad sector was taken as a bullish sign. It implied that industrial output was on the rise, rather than indicating a surge in transportation of goods already produced.

Frank Munsey, in *Munsey's Magazine*, thought business would soon be looking up for the railroads, as well. Already, the rails were benefiting from seasonal shipments of citrus fruits and early vegetables from Florida. While the carriers awaited a more general pickup, passenger traffic and mail transportation were generating reasonably steady revenue. On the whole, shareholders had ample cause for optimism regarding the railroads' long-term prospects. Accordingly, Munsey predicted that to keep their roads and rolling stock in good repair, the companies would conserve cash by cutting dividends. This observation helps to explain why the bulls of 1908 weren't discouraged by widespread dividend reductions and omissions.

In fact, from a certain perspective, investors might even have viewed dividend cuts as good news. Prior to the Panic of 1907, according to Munsey, the controlling interests of several railroads had raised dividends excessively for their own enrichment. In a typical scheme, the directors accumulated a large block of stock, then hiked the payout. A quick rise in the share price resulted, but the company was left short of cash to maintain its facilities.

Munsey specifically cited Edward Harriman's August 1906 increase of Union Pacific's dividend rate from 6 percent to 10 percent of par. The maneuver caused Union Pacific stock to jump by 14 percent in just two days. It was "one of the rankest cases of stock-gambling with a legitimate business that has happened in recent years," in Munsey's words, but by no means unique.

Perhaps, as dividends receded to more prudent levels, investors began to perceive the railroads as genuinely improved investments. Alternatively, they may have reasoned that the reduced dividend payouts gave the smart operators a chance to run up the same stocks all over again. If so, their instincts weren't entirely misguided. "No one has lost any money in following the leadership of Mr. Harriman," insisted the *Commercial and Financial Chronicle* in a late-1908 assessment of the financier's career.

To be sure, the optimal balance between dividends and cash retention was a debatable point and it remains so. From Ben Graham's 1926–1928 proxy battle with Northern Pipeline to Kirk Kerkorian's hostile bid for Chrysler in 1995, insurgents have routinely charged management with hoarding cash that could be more usefully distributed to shareholders. Likewise, critics of 1980s leveraged buyouts echoed *Munsey's Magazine*'s accusation that Edward Harriman had drained cash out of Union Pacific at the expense of essential expenditures. Perhaps some of the LBO sponsors did, in fact, cut through fat and into the muscle. No one, however, can accuse them of inventing the idea.

Cold, Cold Heart

Edward H. Harriman and his immediate family shaped events across the span of all of the Very Good Years. The great speculator made his first stock market killing in the Black Friday panic of 1869. His daughter-in-law served as Ambassador to France under President Bill Clinton.

Although less colorful than many financiers before and since, Edward Harriman was a leading celebrity in 1908. "His downsitting and uprising were compassed about with reporters," according to *The Nation*. "News about him and inventions about him were read with absorbed attention by millions of his fellow-countrymen. He stood as one of the chief symbols of his class—a name freely bandied about, abused more than he was admired, yet always a synonym of power, possibly of danger, but unquestionably of social and political importance."

In *The Nation*'s estimation, Harriman was a throwback to the robber barons of the preceding generation. "The imperious and ruthless methods which he too often adopted, used to be endured in a Commodore Vanderbilt, in a Fisk or Gould, but they were obsolete even while Mr. Harriman was employing them."

But even in light of the Union Pacific affair of 1906, Harriman was praised for investing heavily in maintaining and upgrading his properties. "He is admitted to have been as able a railway man as he was stock manipulator," *The Nation* acknowledged. A journalist who admired his intellectual ability said of Harriman, "He would be a wonderful character if he only had a heart."

Certainly, heartlessness was a characteristic commonly ascribed to Harriman. *The Nation* supported the judgment with several specific charges:

- Remorselessly marching over the wrecks of others on his way to power.
- Coldly disregarding the human element in finance.
- Having little patience for criticism.

The Nation also took exception to Harriman's "clutching after and use of political influence to further his business ambitions," yet tried to be fair about the thing. "We say nothing of his charities," added the periodical, "for they may have been much larger than the public knows."

Indeed, aside from such widely recognized philanthropics as endowing boys' clubs, Harriman took great interest in the welfare of everyone on his 7863-acre estate in Orange County, New York. Each Christmas, Harriman bestowed a suitable gift on every man, woman, and child of the manor. One year, Tom, a forlorn boy who lived with his drunken father in a shack some four miles from the big house, was inadvertently omitted from the Christmas list. Accompanied by his son Averell, the future governor of New York, Harriman himself "went to the little shack in the woods, with a sled—a fine sturdy sled, such as every boy longs for." Harriman's biographer, George Kennan, regarded this touching episode as just one demonstration of how grievously the railroad magnate was misjudged by those who observed him only in a business setting.

Incidentally, the remarkably long span of influence of two generations of Harrimans arose from rather unusual circumstances. Edward Harriman was not quite 21 on Black Friday, 1869. At 43, he fathered Averell, who 80 years later married a woman 30 years his junior. Averell's widow was the daughter-in-law not only of Edward Harriman, but at an earlier point, of Winston Churchill. Her appointment as Ambassador to France came near the end of a long and very busy life. Among Pamela Digby Churchill Hayward Harriman's reputed lovers was crooner Frank Sinatra, whose many hits included "It Was a Very Good Year."

Pulpit Bully

"Wall Street is in such a nervous and irrational condition," wrote Frank Munsey on February 25, 1908, "that if the President says anything, it trembles and translates his utterances into some fresh disaster. If he says nothing for a little while, Wall Street regards his silence as ominous, and shakes in its boots." According to Munsey, Wall Street even blamed Theodore Roosevelt for the 1907 panic. An unabashed admirer of the hero of San Juan Hill, Munsey denied that there was "one little bit of truth in this assertion."

In retrospect, certainly, Roosevelt's stepped-up trust-busting in 1907 seems a minor factor in comparison with the mounting strain on the credit system. Inadequately reserved, and therefore inherently unstable, trust companies didn't help matters. On the other hand, the Colonel's overheated rhetoric invited attack from Wall Street.

Hardly anything could be worse, Roosevelt maintained, than permitting America's fate to be determined by "the man of mere wealth, to whom the stock market is everything, and whose short-sighted vision is bounded by the horizon of a material prosperity." Among the many character flaws that the Colonel detected in such individuals was a deplorable lack of patriotism. This failing became apparent to Roosevelt when they questioned the wisdom of war with Spain in 1898. "The big financiers and the men generally who were susceptible to touch on the money nerve, and who cared nothing for National Honor if it conflicted even temporarily with business prosperity, were against the war," Roosevelt later recalled. Might this opposition, as many contended, represent in some measure a principled stand against imperialism? No, explained Teddy, it was all attributable to "the craven fear and brutal selfishness of mere money-getters."

Why, war would be a positive blessing for America, which, in Roosevelt's view, was too complacent about national defense. "I sometimes question," he confided to a future German ambassador to the United States, "whether anything but a great military disaster will ever make us feel our responsibilities and our possible dangers." And it didn't matter much which country provided this valuable lesson, including Germany. "Frankly, I don't know that I should be sorry to see a bit of a spar with Germany," he remarked in 1889. "The burning of New York and a few other sea coast cities would be a good object lesson in the need of an adequate system of coast defenses." By 1895, Roosevelt was all for declaring war on Great Britain over a dispute involving the border between Venezuela and British Guiana: "Let the fight come if it must. I don't care whether our sea coast cities are bombarded or not; we would take Canada." The following year, Teddy's enemy of choice had changed again: "It is very difficult for me not to wish a war with Spain, for such a war would result at once in getting a proper navy." By 1897, he was happy to pick an adversary at random. "In strict confidence," he wrote to an officer, "I should welcome almost any war, for I think this country needs one."

Theodore Roosevelt was surely one of the Nobel peace prize's most belligerent recipients. "He would like above all things to go to war with someone," a college friend wrote of him back in 1885. "He wants to be killing something all the time." And shame on anyone who felt otherwise. "A Quaker may be quite as undesirable a citizen as a duelist," Roosevelt asserted, in the following year. "No man who is not willing to bear arms and to fight for his rights . . . should be entitled to the privilege of living in a free community."

Fourteen years later, campaigning for Vice President among members of the Society of Friends, he backtracked a bit: Without the Quakers, whose "social and industrial virtue" entitled them to "the respect of all people," the American people "would never have been able to make the Republic what it is and should be." In fact, Roosevelt mellowed so much that by the time he published his memoirs in 1913, he conceded that not all proponents of disarmament and mandatory arbitration of international disputes were malevolent enemies of social order:

> Many of them are, in the ordinary relations of life, good citizens. They are exactly like the other good citizens who believe that enforced universal vegetarianism or anti-vaccination is the panacea for all ills.

During his presidency, however, Roosevelt regarded disagreement as sacrilege. It was no exaggeration for former Republican Secretary of the Interior Carl Schurz to portray him as believing all opposition to his reelection to be wicked "and that therefore, those who decide to vote against him—about one-half the voters of the United States—are unpatriotic citizens and bad Americans." Added British journalist George W. Smalley, "He honestly believes it is impossible to differ with him honestly." In castigating his opponents in the Senate as "demagogues" and "crooks," in ridiculing "the limited mental horizon" of those who differed with him, Roosevelt was neither fairer nor more temperate than Wall Streeters who blamed him for market slumps.

The Substance of Things Hoped For

On May 21, *The Nation* cautioned that the second leg of the 1908 stock rally was signaling a business recovery that wasn't actually materializing. In fact, certain business statistics suggested that the economy was worsening. U.S. Steel's March 31 orders for future delivery were below the December 31, 1907, level. Iron ore production in the United States declined in April, while the number of idle railroad cars increased after a promising drop in March.

"Here was apparently a picture of uninterrupted depression," *The Nation* proclaimed. "Yet on the Stock Exchange, a second upward movement began at the close of April, and has continued, with increasing rapidity and violence, ever since." No comparable level of speculation had been observed since the "Harriman Market" of August 1906, when the diminutive financier known as the "little giant" went on a rail securities buying spree and radically increased Union Pacific's dividend. Not only had stocks rebounded to the prices witnessed prior to the October 1907 money panic, but they were approaching the levels attained before the March 1907 market crash.

The bullish case rested on the observed resumption of payments by the banks and restoration of credit. As long as lending was curtailed, investors were not only precluded from buying, but were compelled to liquidate stocks to meet their obligations. It was typical, pointed out the bulls, for stocks to rally after a panic as banks resumed payments. This time around, moreover, the postpanic environment included the atypical blessings of a sound dollar, a well funded U.S. Treasury, and prosperous conditions outside the Eastern financial centers. New York's banks had created a somewhat isolated problem by excluding the trust companies from the ordinary surveillance of the Clearing House. The most optimistic speculators spoke of an immediate revival of the boom that had been rudely interrupted by the traumas of 1907.

Arguing for caution was European skepticism regarding the U.S. stock rally. Not only were the great banking houses of Europe refusing to finance any new American railway loans, but New York had just been hit with a massive gold outflow. And while the initial surge in stock prices may have represented a normal postpanic response to the restoration of credit, *The Nation* saw no precedent for as swift a business rebound as the continuing rally implied. The periodical also noted that the market would have to deal with the upcoming presidential election, "traditionally an unsettling factor in business."

Did You Ever Have to Make Up Your Mind?

In July, the Republicans' noncontroversial choice of William Howard Taft as their 1908 presidential candidate offered hope that the election would be less unsettling than usual. A former governor of the Philippines and future Chief Justice of the Supreme Court, Secretary of War Taft was Theodore Roosevelt's chosen successor. For all of the blustering against the Rough Rider, Wall Street looked favorably upon continued Republican occupation of the White House.

Taft was to be remembered as much as anything for his girth. "He was our great human fellow because there was more of him to be human," said homespun humorist Will Rogers upon Taft's death. "We are parting with 300 pounds of solid charity to everybody." Taft himself made light of his heft. He told of a youngster who was warned that if he didn't stop biting his nails, he'd swell up like a balloon and burst. The boy believed his nurse and broke his bad habit. A month or so later, the lad met Taft, eyed him with stern disapproval, and said accusingly, "You bite your nails!"

If there was any great difference of opinion about the GOP nominee, it was in the views of Theodore Roosevelt before and after Taft entered the White House. In 1901, the Colonel wrote, with remarkable prescience:

> A year ago a man of wide acquaintance, both with American public life and American public men, remarked that the first Governor of the Philippines ought to combine the qualities which would make a first-class President of the United States with the qualities that would make a first-class Chief-Justice of the United States, and that the only man he knew who possessed *all these* qualities was Judge William H. Taft, of Ohio. The statement was entirely correct.

Roosevelt went on to rhapsodize about Taft's "absolutely unflinching rectitude on every point of public duty, and a literally dauntless courage and willingness to bear responsibility." After the 1912 election, in which he bolted his party to oppose Taft in a three-way race that handed the presidency to Woodrow Wilson, Roosevelt had a much different view. Through his narrowly legalistic interpretation of the President's role, said Roosevelt, Taft put himself in a class with the lamentable James Buchanan. Roosevelt's own approach to the job, in his own estimation, placed him in the company of Andrew Jackson and Abraham Lincoln.

In 1908, however, Roosevelt backed Taft heartily and investors endorsed his choice. Republican victory was all the more imperative in light of the Democrats' selection of William Jennings Bryan. Although twice before defeated for the presidency, the "Nebraska Cyclone" had lost none of his fervor. And the financial world regarded him as no less of a menace than in 1896, when he ran against the gold standard and "the Wall Street syndicates which have been bleeding this country." Other epithets favored by the "Silver-tongued Orator" included:

- "Money changers and the attorneys of the great trusts and corporations."
- "Great combinations of money grabbers."

- "Idle holders of idle capital."
- "The class which owns money, and trades in money, and grows rich as the people grow poor."

This time around, Bryan asked, "Shall the people rule?" His answer, in part, was that they could not, as long as corporations were able to buy elections. He proposed mandatory disclosure of campaign contributions above $100, as well as a prohibition of contributions in excess of $10,000. The "Knight of the West" denounced Standard Oil of New Jersey as "the most notorious lawbreaker in the United States." He advocated a licensing procedure for corporations, designed to prevent the creation of monopolies. In short, Bryan erased any possible doubt in Wall Street's mind about the necessity of electing Taft.

That left a lot of potential votes for Bryan to capture, however. The "Great Commoner" felt confident of victory, based on his undeniable rapport with the disaffected population of the small towns and farms. "He never felt uncomfortable with the poor farmers and laborers with whom he might rub shoulders in town squares," wrote Bryan biographer LeRoy Ashby in 1987. "He had no trouble . . . identifying with even the most deprived residents of village and rural America."

H. L. Mencken looked less kindly on this aspect of William Jennings Bryan's character. "He liked people who sweated freely, and were not debauched by the refinements of the toilet," observed the eminent editor and critic upon Bryan's death. "His career brought him into contact with the first men of his time; he preferred the company of rustic ignoramuses." Nor, in Mencken's judgment, did Bryan merit respect for remaining true to his principles, however benighted: "If the fellow was sincere, then so was P. T. Barnum. The word is disgraced and degraded by such uses. He was, in fact, a charlatan, a mountebank, a zany without sense or dignity."

Biographer Ashby, while making no excuses for Bryan's defense of Southern statutes that denied black suffrage, put a positive spin on the anti-Darwinist crusade of the aging "Boy Orator of the Platte." As an unfailing upholder of the powerless, argued Ashby, Bryan instinctively opposed a doctrine that he saw being used to justify exploitation of the weak by the strong. Once again, H. L. Mencken viewed the matter in a different light. At the celebrated 1925 Scopes "monkey trial," Mencken wrote of Bryan, "He descended to demagogy so dreadful that his very associates at the trial table blushed. His one yearning was to keep his yokels heated up—to lead his forlorn mob of imbeciles against the foe."

The Sound of One Company Merging

During the spring of 1908 representatives of four leading automobile manufacturers met in Detroit's Penobscot Building to discuss an audacious plan. The proposal was to form an automobile trust on the model of the United States Steel Corporation. With their combined annual production of 22,000 cars, the companies would dominate the industry, enabling them to take some of the risk out of an intensely competitive and volatile business. Financing for the consolidation would be arranged by J. Pierpont Morgan, who had masterminded the U.S. Steel deal seven years earlier.

Unfortunately, the four proposed principals had very different plans in mind. Before long, two dropped out—Henry Ford and Ransom E. Olds, manufacturer of the Reo. That left Buick Motor Company, headed by one-time carriage manufacturer William Crapo Durant, and Maxwell-Briscoe.

Benjamin Briscoe had hatched the consolidation scheme and brought the House of Morgan into the proposition. When news of the pending consolidation was leaked to the *New York Times*, however, the House of Morgan angrily yanked its support. Durant in turn dropped Maxwell-Briscoe from his plans.

Herbert L. Satterlee, J. Pierpont Morgan's son-in-law and head of the law firm handling the deal, quite reasonably asked Durant how it was possible to effect a consolidation with only one company. At that point, the Buick chief sprang a surprise: For the past month he had held an option to acquire at least 75 percent of Oldsmobile, a troubled company originally founded by Ransom E. Olds. Durant would now be the unchallenged head of an automobile powerhouse. His inspiration was to produce several different makes, thereby maximizing the chances of having a hot seller in any given year.

Before long, the new company would advance that goal by acquiring the Oakland (later the Pontiac) and the Cadillac. But first, the corporation needed a name. Durant preferred "International Motors," but the Morgan partner who had originally proposed it indicated that he wanted to retain the name for a possible future combination. "United Motors" was scratched when one of Satterlee's law partners uncovered a New Jersey company operating under the name "United Motor Car Company." And so, on September 16, 1908, General Motors Company was incorporated with a token capitalization of \$2000. After Durant tendered Buick shares worth \$3.4 million to the entity, the directors raised GM's capitalization to \$12.5 million. From these modest beginnings emerged the stock that technical analysts came to regard as a bellwether for the entire market.

The Match Game

On the then customary two-hour Saturday trading session of August 22, a curious incident raised fears of stock manipulation. During the week, many large sell orders had arrived on the New York Stock Exchange floor. Market participants attributed the sales to major operators who'd been caught short and were hoping to limit their losses. Aside from mysterious drops in a few railroad names, however, the bear initiative failed. Then came, in the words of Howard Schenck Mott of *Harper's Weekly*, "one of the most remarkable phenomena ever witnessed in the stock market." In the first hour of Saturday's trading, prices rose moderately on immense volume. Turnover remained exceptional during the second hour, as prices broke gently and finished essentially unchanged on the day.

Suspicions were widespread that the huge volume of August 22 consisted largely of "matched orders." With an eye toward rigging the market, it was alleged, a large operator would surreptitiously enter both a buy and a sell order. (Edward Harriman dubbed the practice "selling in circles.") "That these enormous transactions of Saturday were bona fide, that the principals were really prepared to pay for the stocks which they bought and to deliver the stocks which they sold, is inconceivable," commented *The Nation*. "The attendant circumstances indicated that the great activity was a humbug. Brokers were openly declared to have been entrusted with orders for 5,000 or 10,000 shares, orders which they were instructed to execute only with certain other designated brokers."

Outsiders weren't sure whether the maneuver was aimed primarily at covering shorts at artificially depressed levels or at levitating prices in order to take gains. In either case, argued Mott, who later moved on from *Harper's* to become a vice president of the Irving National Bank of New York, the fact that prices scarcely budged was proof that established New York Stock Exchange safeguards precluded successful manipulation. Still, he felt obliged to rebut the popular perception of the exchange as an iniquitous institution. "No widely entertained view could possibly be more fallacious," he wrote. In a similar vein, the

American Review of Reviews, while frankly acknowledging the prevalence of matched orders, reported that the most egregious example during 1908 was a bear effort that failed. "The successful financiers are not those who defy the workings of natural conditions," remarked the editorialist, with obvious satisfaction, "but those who see them first." Never mind that, as *The Nation* pointed out, "By general agreement among brokers, the operations in question constituted a flagrant violation of good faith and the rules of the Exchange."

Fallacious or not, the popular impression of monkey business as standard operating procedure was probably an inevitable result of the frantic speculation that characterized 1908. The public saw clearly that the production of goods and services wasn't recovering at a rate commensurate with the leaps in financial market values.

According to the *American Review of Reviews*, however, this was no indication that speculators were (or were even capable of) pumping up stock prices artificially. The simpler explanation was that with loan demand depressed because of the business slump, lendable bank funds had flooded into New York. There, competitive forces had driven six-month money rates down to the 3 percent to 3½ percent range. Wealthy individuals could hardly be faulted for capitalizing on their strong credit ratings to borrow at 3 percent and invest in bonds with coupons of 4½ percent or stocks carrying dividend yields of 5 percent or 6 percent. Their plan was to earn a couple of points above their borrowing cost for a while, then sell at higher prices when business conditions inevitably improved. There was risk in the strategy, certainly, but these affluent people could stand it, as long as they took care to diversify their holdings.

Realistically, the *American Review of Reviews*'s explanation of the stock market surge was probably a little too tidy. It's hard to imagine that along with the responsible coupon clippers that the author portrayed, there probably weren't some highly aggressive operators in the market as well. And what would happen when the prudent investors decided to take their profits? If their shares weren't absorbed by some other group that had been on the sidelines, prices were bound to fall. Worse still, there's no getting around the fact that a strategy of borrowing at 3 percent and investing at 6-percent-plus-price-change is a leveraging game. It's axiomatic that leverage feels great on the way up, but that in a downturn it creates painful losses, which lead to further liquidations.

But even if the *American Review of Reviews* painted too rosy a picture of speculators, the periodical offered a highly plausible interpretation of the rally. During the Very Good Years of 1927 and 1928, analysts once more hypothesized that because available credit exceeded ordinary loan demand, it was flowing into margin lending. The result once again was a bull market of greater proportions than conventional valuation measures could justify. By then, however, the creation of the Federal Reserve System had made it possible for the game to go on quite a bit longer.

The Real Thing

Ty Cobb of the Detroit Tigers enjoyed a customarily outstanding season in 1908. He won his second of an eventual 12 batting championships with a .324 average. Cobb also led the American League in hits, doubles, triples, runs batted in, and assists by an outfielder.

In the same year, Cobb was photographed on the bench with a carton of soda pop conspicuously displayed at his side. The soft drink was a brand produced in his native state of Georgia, originally marketed as "French Wine Cola Nerve and Tonic Stimulant."

After World War I, Cobb's golfing partner and fellow Georgian Robert Woodruff formed a syndicate to buy all of the rights to Coca-Cola. Up until then, Cobb had resisted Woodruff's pleas to invest in the company on the grounds that the stock wasn't listed on the New York Stock Exchange. But the fleet outfielder was impressed by Woodruff's confidence, evidenced by his entering into the largest financial transaction arranged in the South up to that time. What's more, Woodruff offered to have his bank, Georgia Trust, lend Cobb the money to buy the shares. The loan could be repaid with Coca-Cola dividends.

The Georgia Peach purchased 300 shares for a total of $10,800. Within eight years, his annual income from Coca-Cola reached $350,000. Eventually, with the help of additional purchases, Cobb's yearly dividends reportedly exceeded a million dollars. Fellow Hall of Famer Tris Speaker profited from Cobb's advice to buy Coca-Cola and hold onto it for retirement.

Well before age 40, Cobb was a millionaire, even though his baseball salary never surpassed $85,000 a year. Besides his reluctant, but spectacularly successful investment in Coca-Cola, Cobb also bought into General Motors a year after its founding. Additionally, he profited in commodities, owned a lucrative car dealership, and unsuccessfully tried to buy a major league ball club. But Coca-Cola held a special place in Cobb's heart, as well as his portfolio. He even refused to patronize service stations that didn't sell Coke.

It Never Entered My Mind

Following the nominations of Taft and Bryan in early summer, bull-minded investors seemed curiously unconcerned about the approaching election. In contrast, the Great Commoner's first nomination in 1896 had been greeted by a violent "election scare" that drove prices down through mid-August. Thereafter, warnings were regularly sounded that insulated Eastern speculators were oblivious to Democratic inroads in traditionally Republican Midwestern constituencies. The visitor from Iowa, who'd found that every man he'd met there was planning to vote for Bryan, became a stock figure on Wall Street. Fearful that bimetallism would wreck the currency and with it the nation's financial condition, investors lined up at the Sub-Treasury's redemption window to exchange legal tender notes for gold. On the day before the 1896 polling, the yield on call money soared to 96 percent. Four years later, the specter of Bryanism was still frightening enough to perturb the market throughout September and send money rates to 25 percent on election eve.

Conceivably, the complacency that ensued upon Bryan's third designation as the Democratic standard-bearer was attributable to the absence of an election scare in 1904. In that year, as in the scareless campaign of 1892, well informed investors never had doubt about the outcome. Nor did the 1888 election discombobulate the market, which was equally comfortable with either candidate. At any rate, the 1908 calm was suddenly shattered in September. All five of the most active stocks of the period, railroad names in each case, declined by about 15 points on heavy volume. No explanation was offered on the Street except for a sudden fear that Bryan might succeed at long last.

Precipitating the abrupt shift in attitude were the results of a state election in Maine. The Republican plurality of 7700 was well below the 27,000-vote edge achieved four years earlier. Even in September 1892, two months before Democrat Grover Cleveland recaptured the White House, the GOP managed a 12,500-vote victory in Maine. Never mind that Maine had delivered a record Republican plurality in Cleveland's November 1884 triumph and on numerous other occasions showed itself a less reliable bellwether than Vermont. Shaken by the real possibility of an event they hadn't seriously contemplated, investors momentarily permitted greed to give way to fear.

Incidentally, the claim of East Coast isolation from events in the heartland, noted in connection with the 1896 Presidential race, became a cliché throughout the twentieth century. Despite vast improvements in communications over the decades, New York–based economists were regularly charged with obliviousness to trends west of the Hudson River. High-concept corporations capitalized on the same perception to argue that their shares were undervalued as a consequence of Wall Street's insularity. "If only brokerage house analysts would venture beyond the five boroughs," sighed management, "they'd discover that in other parts of the country, manufactured housing is regarded as a prestigious lifestyle option, rather than the despised 'trailers' they imagine." The story had an undeniable emotional appeal, derived from the same inspiration as the Populist image of a cow eating grass in the Midwest while being milked in New York. It's uncertain, however, whether any investor ever found a systematic method of profiting from the supposed East Coast isolation effect.

Easy Living

The election scare drove the Dow industrials to a low of 77.07 on September 22, representing a 9 percent decline from August's close. A month later, the index stood 7 percent higher. Helping to fuel that resurgence were unexpectedly favorable money market conditions.

Ordinarily, interest rates rose in autumn as farmers borrowed at country banks, draining cash from New York. In 1908, money was flowing in the customary fashion, yet rates remained low. The financial press professed amazement. According to the *New York Sun*, the stock market was benefiting from an unprecedented combination of favorable conditions:

- An abundant supply of money in the United States and around the world: "Not paper money or that proceeding from mere currency inflation, but real money—namely, gold."
- A good crop, with prospects for high prices.
- Continued strong consumer demand in the West, which appeared untouched by the late panic: "Almost half of the country is not aware that Wall Street has been troubled in any way."

To be sure, the U.S. economy wasn't yet back to full speed. Railroad earnings were running about one-sixth below 1907 levels, while bank clearings were roughly 20 percent behind the year-earlier pace. *Dun's Review*, however, could now describe the iron and steel outlook as "more encouraging than at any time this year." The U.S. trade balance had improved, with imports down by approximately one-third, year over year, and exports up slightly. A decline in the number of idle freight cars emboldened bankers and market commentators worldwide to predict a steady improvement in conditions. "It is this anticipation which reconciled disinterested students to higher security prices," concluded the *American Review of Reviews*, "and it was a low money rate which made the rise practicable."

The Ramparts We Watched

In the closing weeks of the presidential campaign, investors grew increasingly optimistic about the outcome. The growing likelihood of a Taft victory was also given credit for an apparent business pickup during October, although subsequently released railroad earnings cast doubt on the perceived recovery. Going into the fourth quarter, the 1908 rally had a good distance yet to run. The Dow Jones railroads climbed from 105.95 on September 30 to 120.05 on December 31, with the industrials registering a more modest ascent from 79.93 to 86.15.

Before the final quarter's upsurge commenced, however, stocks traded off modestly on a European war scare. After a brief and fairly mild reaction within the U.S. market, European selling of American stocks produced an aftershock. The objective was evidently to raise cash in anticipation of possible disruption in the financial system. In the end, the setback proved minor and temporary. Rails, which took the brunt of the sell-off, fell by only 1.6 percent between October 4 and October 10.

The war scare began when Austria-Hungary annexed the Turkish provinces of Bosnia and Herzegovina. Under the 1878 Treaty of Berlin, the Dual Monarchy had been entrusted with "occupying" and "pacifying" Bosnia and Herzegovina, while sovereignty remained with Turkey. The annexation was part of a broader scheme to expand Austria-Hungary's influence, which reportedly included creating a Slavic state to produce a Triple Monarchy. When dispatches from London described the Balkan crisis as the gravest threat to European peace since the Franco-Prussian War of 1870–1871, American investors largely wrote it off to alarmism. True, some speculators tried to stimulate action by circulating rumors that Turkey had fired on a Bulgarian ship or dispatched forces to subdue Crete. But these imaginative tales failed to provoke the intended bear reaction.

As *The Nation* explained, however, the true danger wasn't a conflict between "two second-rate governments" (i.e., Turkey and Bulgaria).

The real threat to financial markets arose from the possibility that major European powers would be dragged into hostilities. Several had claims under the Treaty of Berlin that might be threatened by uncontrollable popular uprisings. Evidence that Europeans weren't taking this risk lightly included sizable price declines in government bonds—6¼ points for Turkey, 3¾ for Russia, 1⅝ for Great Britain, and 1½ for Germany. A sharp advance in wheat prices on the Chicago Board of Trade was likewise seen as a manifestation of war fears. U.S. rumormongers tried to jump on the wider-war bandwagon by whispering that Serbian guerrillas had invaded Austria. In retrospect, fears of a wider war weren't as far-fetched as U.S. investors seemed to believe. Six years later, the assassination of Austro-Hungarian Archduke Francis Ferdinand in Bosnia set off the chain of events that produced World War I.

Part of the reason American investors refused to panic in response to the latest attempt to drum up a war scare was that it had been done so many times before. The years leading up to 1908 had been a golden era for belligerent types like Theodore Roosevelt. Market disturbances in advance of actual or potential hostilities included the following:

- 1895: U.S.–British dispute over Venezuela–British Guiana boundary—war averted.
- 1896: U.S.–Spanish dispute over Senate's declaration of Cuban independence—war averted.
- 1897: Outbreak of Greco-Turkish War—wider European war averted.
- 1897: New U.S.–Spanish friction over Cuba—war averted.
- 1898: Explosion of *Maine*—prelude to the Spanish-American War.
- 1898: French–British dispute in Sudan ("Fashoda Incident")—war averted.
- 1899: Dispute between Great Britain and the Transvaal—prelude to the Boer War.
- 1904: Russian–Japanese friction over Manchuria and Korea—prelude to the Russo-Japanese War.
- 1905: French–German dispute over Morocco—war averted.

Howard Schenck Mott of *Harper's Weekly* found that the impact of war scares on U.S. stock prices depended on the prevailing state of the economy and the credit market. For example, instant panic greeted the 1895 Venezuelan crisis because the federal government's finances had been strained for several years, leaving the money market vulnerable. Two years later, by contrast, the market quickly recovered from an initial drop. The first Cuban crisis arrived while the credit market was flourishing and a business recovery was stimulating railroad profits. Rising railroad earnings helped again in 1899, overcoming the combined effect of the Boer War's approach and tight money.

On the whole, Mott concluded, war scares mattered most when there was a chance of the United States getting into the fight. The negative effect did not arise from the fact that wars were bad, per se. Rather, the problem was that U.S. involvement created a bigger drain on the domestic money markets than strictly foreign wars. "The larger the demand for capital," he explained, "the higher interest rates rise, and the higher interest rates rise, the lower the relative return for security investments." As for the latest war scare in the Balkans, Mott was confident that industrial and financial conditions were sufficiently favorable for the market to get by without lasting damage. In fact, while a European war would put upward pressure on interest rates, it would also increase demand for U.S. agricultural products and manufactured goods. "The effect on our trade and industry," he observed brightly, "and ultimately on our stock market as well, would doubtless be stimulating." Of course, he added, a continuation of the ordinary recovery already underway "would be more wholesome."

Getting to Be a Habit

On November 3, William Jennings Bryan lost by the largest margin in his three attempts to capture the White House. But even after this latest setback, his political influence was not at an end. In 1916, Bryan helped turn the tide in favor of granting the Democratic presidential nomination to Woodrow Wilson, who subsequently named him Secretary of State. Eight years later, the Democrats unexpectedly chose his brother Charles Bryan, the governor of Nebraska, as presidential candidate John W. Davis's running mate. Some thought it a ploy to capture votes from William Jennings Bryan's die-hard, but possibly inattentive, supporters. The affair gave rise to a presumably apocryphal account of an elderly Mississippi farmer who sized up the Democrats' 1924 ticket: "Bryan's a good man. I voted for him three times. But ain't Jeff Davis getting kind of old?"

In 1908, notwithstanding the common people's continued affection for Bryan, investors were delighted to see the electorate reject him yet again. On Wednesday following the election holiday, the Dow industrials finished 2 percent above Monday's close.

Finishing Touches

Over the nine sessions following Taft's victory, the industrials rose by nearly 7 percent, reaching their 1908 high watermark of 88.38 on November 13. Railroads, in contrast, extended their postelection rally through year-end. Shortly before Christmas, the upturn was briefly interrupted, with a report that Edward Harriman was ill providing the most ready explanation. "The mere intimation that Mr. Harriman was slightly indisposed," marveled the *Commercial and Financial Chronicle*, "was sufficient to unsettle the market and put financial circles on the quiver." In the following year, the slightly indisposed Mr. Harriman died.

Temporary anxiety also arose over testimony by Andrew Carnegie opposing tariff protection for the steel industry. The *Commercial and Financial Chronicle* noted that Carnegie's opinion was out of line with the view of industry leaders (all dispassionate in their judgment, no doubt). Perhaps, the periodical insinuated, Carnegie was resentful over having sold out his steel holdings to the newly formed U.S. Steel in 1901, only to see the new corporation prosper magnificently. In the *Commercial and Financial Chronicle*'s judgment, Carnegie's reputed feeling that he ought to have gotten more for his interests was unreasonable. According to the editorialist, the consensus at the time was that he received an excessively high price. Now, the *Commercial and Financial Chronicle* somewhat hyperbolically contended, Carnegie was spitefully jeopardizing not only the steel tariff, but with it, the nascent U.S. economic recovery.

Investors, in any event, didn't act as though the situation was as bad as all that. They saw that the October war scare had blown over with no lasting damage to the credit markets. A favorable harvest had eliminated a potential obstacle to recovery. Furthermore, industrial production had rebounded more swiftly than in past recessions. U.S. Steel was now operating at 60 percent of capacity, a level that the *Wall Street Journal* deemed higher than anybody ought to have expected. With all signs pointing in a positive direction, the Dow railroads index hit its 1908 peak of 120.05 on the very last day of the year.

Words of the Prophet

Frank A. Munsey's 1908 outlook, published in his eponymous magazine, had been extraordinarily prescient. Prognosticators have produced a decidedly mixed record over the years, but Munsey's December 1907 forecast is an inspiration to pundits everywhere.

Munsey saw that at the time of the money panic in October 1907 conditions hadn't been bad in the real economy. That is to say, prosperity reigned in every branch of the production of goods and services. There was no unemployment or inventory overhang at the time, he maintained. The only weak point was overextension of credit: "There had been too much high finance, too much highway robbery under the name of FINANCE." Conditions were ripe, Munsey believed, for a rally in stocks.

Among Munsey's right-on-the-money predictions for 1908:

- "Money will undoubtedly get much easier after the first of the year."
- "We shall have a shorter period of paralysis than ever before in our recessions."
- "The price of securities will show a marked advance."

The Big Bounce

Among the 10 best years of the twentieth century, 1908 ranked near the middle of the pack. Total return on the Cowles Commission index (the Standard & Poor's 500 hadn't been introduced yet) was 45.78 percent. By comparison, total return in the top year (1933) was 53.97 percent, while 1995 brought up the rear at a not unimpressive 36.89 percent. While the period's comparatively high dividend yields helped the cause, price change by itself provided a healthy gain. The Dow Jones Industrial Average rose by 46.64 percent in 1908 and the Railroads Average by a highly respectable 35.24 percent.

Like several other Very Good Years since the beginning of the century, 1908 was a bounce-back rally. During 1907, investors suffered a money panic on top of a stock market crash. In that year, the Dow industrials plummeted 45 percent from peak (96.37 on January 7) to trough (53.00 on November 15). The potentially stabilizing influence of the Federal Reserve System, it's worth noting, didn't arrive on the scene until 1914. Nevertheless, the restoration of credit at the beginning of 1908 was widely regarded as the catalyst for the ensuing bull market.

Although credit conditions began to improve early in the year, the stock market ran well ahead of the economic recovery. Earnings on the Dow industrials declined by half from the 1907 level. Numerous dividend cuts and omissions likewise gave investors little to cheer about, yet New York Stock Exchange volume rose slightly in 1908.

Historically minded analysts, however, didn't regard the market's 1908 performance as entirely anomalous. "A practically identical recovery in stocks took place in 1858 after the great panic of the previous year," noted the *Wall Street Journal.* "The rally therefore may be taken as normal and in many striking ways, history has repeated itself."

Late in 1908, the bull market survived a war scare. The concept of a war *scare* may be jarring to latter-day readers, who either recall or have heard about U.S. prosperity during World War II. In the many international flare-ups around the turn of the century, however, investors' first concern was the strain that mobilization would put on the credit market. They reasoned that as interest rates rose, wealthy individuals would sell their securities in favor of safer, yet competitive, returns on short-term money instruments.

Still, analysts recognized that after the initial shock, war could be good for business and consequently for the stock market. If extended further back in time, the list of 35-percent-plus total return years would include both 1862 and 1863 from the Civil War period. Investors didn't have to wait long for the proposition to be tested again. By 1915, U.S. stocks were into the market-friendly phase of a war that began when the worst fears of the 1908 Balkan crisis actually came to pass.