elli_c01.qxd 11/21/02 3:00 PM Page 1

WALL STREET PERSONALITIES

elli_c01.qxd 11/21/02 3:00 PM Page 2

elli_c01.qxd 11/21/02 3:00 PM Page 3

August S. Belmont

GREGORY HUNTER

August Schöenberg Belmont was a protégé of the Rothschilds, who trained him in his native Germany. On coming to America in 1837, he represented their U.S. interests, developed his own successful firm in Wall Street, and was a social leader in New York City. He was also the *de facto* head of the Democratic Party from 1860 to 1884, served as a U.S. diplomat abroad, and played a key role in blocking both European recognition and financing for the Confederacy during our Civil War. Racing's Belmont Stakes are a memorial to his interest in breeding fast horses.

Belmont was born on December 8, 1813, in the village of Alzey in the Rhenish Palatinate region of Germany. His father, Simon Belmont, was a community leader who served as president of the local synagogue for many years. . . .

Tragedy came early to young Belmont's life. His mother died when he was seven, followed one month later by the death of his brother. Less than a year later, Belmont went to Frankfurt, 40 miles to the north, to live with his grandmother, Gertrude, and her husband, Hajun Hanau, who had connections with the Rothschilds.

In Frankfurt, Belmont attended a Jewish school. . . . In 1828, his father had to remove him because the tuition payments had fallen so far in arrears.

After he left school, Belmont's relatives convinced their Frankfurt friends, the Rothschilds, to train the boy for a business career. His association with the Rothschilds thus began in 1828, when he was fifteen. . . . The Rothschilds first made Belmont an apprentice at their Frankfurt branch. Clearly learning the business from the bottom up, he began by sweeping floors, polishing furniture, and running errands. Young Belmont was neat and punctual; he worked industriously at whatever tasks the Rothschilds gave him. He also showed drive and initiative, rising daily at five o'clock to have a private tutor instruct him in French, English, composition, and arithmetic.

The Rothschilds recognized Belmont's talents and hard work and, after a few years, advanced him through the ranks. In 1832, they gave Belmont a confidential clerkship and in 1834 made him secretary and traveling

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elli_c01.qxd 11/21/02 3:00 PM Page 4

companion to one of the partners. The latter responsibility significantly broadened his horizons, as he traveled to Paris, Naples, and the Vatican. While in Italy, Belmont learned to speak Italian and spent much of his leisure time in art galleries. That led to a lifelong interest in and support of the arts.

The turning point in Belmont's life and career came in 1837. Because of the instability of the Spanish Empire, the Rothschilds decided that they needed a reliable agent in Havana to watch over their interests. Belmont accepted the assignment and sailed for Havana via New York City. He reached New York on May 14 and walked into the midst of a financial crisis: the Panic of 1837 had begun just one week before; all New York City banks had suspended specie payments.

The New York commercial community was hard hit by the financial downturn and resulting panic, with many businesses failing. Among the businesses affected was the Rothschilds' American agent, J.L. and S.I. Joseph & Company, which failed on March 17, leaving liabilities of $7 million.

Belmont therefore faced a dilemma. While he had instructions from the Rothschilds to go to Cuba, it was obvious that the Rothschild interests in the United States were at great risk. Because of the slow communications with Europe, it would take several months to receive new instructions from the partners. Belmont concluded that the situation required immediate action, and he decided to delay his Cuban departure: he stayed in New York to look after the Rothschilds' concerns.

Belmont established a firm, August Belmont & Company, and rented a room at 78 Wall Street. When the Rothschilds learned of his actions, they approved and appointed Belmont's company their new American agent. The Rothschilds gave him a $10,000 annual salary, a princely sum in the then-depressed city.

Because of its powerful international connection, Belmont's firm quickly became a success. Within three years, Belmont amassed a personal fortune of more than $100,000, making him one of the richest men in New York City. From 1837 to 1842 he sorted out the complicated Rothschild interests in the United States. He served as their disbursing agent and dividend collector even after the immediate crisis passed, and his affiliation with the Rothschilds extended to the close of the century.

August Belmont & Company also became a power in its own right. Belmont was involved in foreign exchange, commercial and private loans, acceptance of deposits, and the handling of commercial paper. By the time of the Mexican War, Belmont's firm had sufficient resources to underwrite a large portion of the loans made to the U.S. Treasury. . . .

Belmont and his wife originally lived at 72 Fifth Avenue. In the 1850s, Belmont purchased and renovated a mansion at 109 Fifth Avenue, on the corner of 18th Street. According to all accounts the house was magnificent.

elli_c01.qxd 11/21/02 3:00 PM Page 5

The picture gallery Belmont had built was the first in New York City to include skylights. The house also had the first private ballroom in the city. The Belmonts frequently hosted and entertained guests in their mansion. Belmont won acclaim as one of the first gourmets in America, and the fine food and drink at his house constituted a source of much conversation in social circles.

As a change of pace, Belmont bought a 1,200-acre farm on Long Island a few years later. Called the Nursery Farm, it was located in Babylon and was virtually a self-contained community.

The farm had a 24-room mansion; a 30-acre lake; fields and silos for corn, hay, wheat, and rye; pastures for cows and horses; and even a bowling alley. The pride of the farm, however, was its stables, where Belmont hoped to raise the best racehorses in America. So that Belmont could watch his equine investments, the farm had a private one-mile-long racetrack complete with grandstands. Belmont emerged as one of the most influential figures in American horse racing during the second half of the nineteenth century. He served as president of the American Jockey Club and helped transform racing from a casual pastime into a professional sport.

Belmont's family connections led to his involvement with politics. In 1851, John Slidell, Belmont's wife's uncle, tried to secure the upcoming Democratic presidential nomination for his friend, Secretary of State James Buchanan of Pennsylvania. In order to win the nomination, it became clear that Buchanan needed to win New York State. At Slidell's urging, Belmont agreed to head Buchanan's New York campaign. Despite Belmont's hard work, Buchanan lost the 1852 nomination to Franklin Pierce.

In a show of party unity, Belmont worked for Pierce's election. . . .

With the victory in hand, Belmont began his own campaign to secure a diplomatic appointment. He reminded the Pierce administration about this active role in the election and stressed his experience in international finance. Belmont hoped to secure the position in Naples, a city he had come to love while working for the Rothschilds. Because of the various political demands on Pierce, Belmont did not receive the Naples post. Rather, the President appointed Belmont chargé d'affaires at The Hague. . . .

Although in Europe, Belmont closely followed American politics. As the 1856 presidential election approached, he promoted Buchanan for the Democratic nomination. Buchanan eventually defeated Pierce, marking the first time in American history that an elected president desirous of another term failed to secure renomination.

When Buchanan won the general election, Belmont angled for an appointment to a more prestigious diplomatic post. In particular Belmont wanted to serve in Madrid, for that would give him the opportunity to pursue a long-standing plan of his for the United States' acquisition of Cuba. Despite Belmont's long association with Buchanan, the new administration ultimately offered him nothing more than a reappointment

elli_c01.qxd 11/21/02 3:00 PM Page 6

to his current position at The Hague. When Belmont learned of this, he resigned and returned to the United States. Belmont's furniture, artwork, wine cellar, and personal belongings required 250 crates to ship home.

Belmont returned to a city in the midst of another panic. Many businesses had failed; unemployment and crime had risen. During that crisis, Belmont contributed generously to several charities. He also did something to try to raise the spirit of the city: he arranged a public exhibition of his art collection. This was a first in New York City and was well received in the press. Ever the art patron, Belmont eventually installed a large art gallery in his Fifty Avenue mansion.

Upon his return, Belmont reclaimed his place at the head of the New York social scene. He brought his chef back with him from Europe, raising dinner parties to a new pinnacle. Belmont typically seated up to 200 people at gold place settings. Each guest had a personal footman to serve and remove plates. He also used his private ballroom for lavish parties that lasted until dawn. The cost of all this socializing was high: Belmont's monthly wine bill alone exceeded $20,000.

Charles D. Barney

Charles D. Barney was a son-in-law of Jay Cooke and a Civil War veteran who lived to celebrate his 101st birthday. His name is one of the few founders' names that are still carried by the firms they started—in this case, more than a century ago. He died in 1945.

PHILADELPHIA, Oct. 24—Charles D. Barney, formerly one of this city's most distinguished financiers and one of the country's oldest Civil War veterans, died last night in his home in nearby Elkins Park after a long illness. His age was 101.

He was born in Sandusky, Ohio, where his father was a grain merchant. His mother was the former Elizabeth Caldwell Dennis, a member of an old New York family. Mr. Barney was attending college in Ann Arbor, Michigan, when his elder brother, Henry, was killed in the Civil War. After two more years of study he persuaded his mother to permit him to enlist. . . .

After the war, he returned to Sandusky and worked as a clerk and bookkeeper in the Second National Bank, but he quit after two years and came to Philadelphia. . . .

From *New York Times*, October 25, 1945.

elli_c01.qxd 11/21/02 3:00 PM Page 7

About the same time he renewed his acquaintance with Laura E. Cooke, daughter of Jay Cooke, the financier, who maintained offices here but who returned annually to Sandusky. Mr. Barney became affiliated with the banking house of Jay Cooke & Co. in 1867—and a year later married Mr. Cooke's daughter. . . .

The Cooke bank failed in 1873 and a year later, with Jay Cooke Jr., Mr. Barney founded the brokerage and banking house of Charles D. Barney & Co., which soon became internationally known and was one of the leaders in the stock and bond business in Wall Street.

Finance alone, however, did not occupy all of Mr. Barney's time. He was an amateur musician, actor, and devout churchman. He taught Sunday School in St. Paul's Episcopal Church, where he was rector's warden. . . .

Mr. Barney retired in 1906 at the age of 62, but retained his directorships in many organizations until a few years ago. . . .

He said his greatest ambition was realized when he celebrated his one hundredth [birthday].

Ferdinand Eberstadt

Ferdinand Eberstadt graduated from Princeton, served in France, got a "war degree" in law from Columbia, joined Dillon, Read & Co., quit when they wouldn't pay him what he considered his due, and set up his own firm in 1931. Sometimes "Ferd," sometimes "Eber," he was always a dreadful golfer. After a 12 on the first hole at Ausable, he said to his caddie, "You know, I believe I'm the worst player in this Club." "Oh no," said the caddie, "there's a far worse player than you, sir." "Who?" "Mr. Eberstadt."

By late 1933, most of the water was wrung out of the fabric of finance. The reorganization business of F. Eberstadt & Co. was ebbing fast, and Ferd returned to the problem of creating an investment business. "Most new firms in Wall Street," said Eberstadt, "were formed by successful salesmen." If you were prudent and careful—and knew the right people—you could get on the big syndicate lists. If not, you had to take any list you could get, for the Wall Street syndicates operate on the backscratching principle, and there was no profit for them in scratching a new back. So Ferd had to scratch for himself. . . . He decided to look for business among

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elli_c01.qxd 11/21/02 3:00 PM Page 8

the smaller companies that Wall Street in general was ignoring—namely those earning from $250,000 up.

Just where hindsight laps foresight in a man's career is difficult to determine; the fact is that Eberstadt moved into this field and, once there, found it the right place for him to be. Indeed, he landed right next to a nice proposition. One of the officials of Square D Co., manufacturing electric-control equipment in Detroit, had been caught in the panic. He had put up 16,000 shares of Square D stock as bank collateral and because there was no market for it, the bank threatened to clean him out. Eberstadt learned of this from a Princeton classmate. The block, consisting of 8,000 preferred and 8,000 common, was offered to him for $40,000. He looked up the company, and when he saw that it was earning nearly a dollar a share, he took up the offer. In March 1934, he tested the market and offered the preferred at $8; it went very well, but the common at $3 was sticky. So he put Square D on the shelf for a year. In early 1935, when the market turned up, he dusted off the common and got rid of some at $15, and, early in 1936, still more at $50. The common was later split three for one and even this sold for almost $50. At present levels, the original 16,000 shares would be worth over $900,000. What Mr. Eberstadt made on the Square D deal is his own secret, but his outright profit probably ran close to $500,000—and the firm still has some shares left.

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This little operation was important to Mr. Eberstadt on several counts. It introduced F. Eberstadt & Co. as a dealer in the securities of a medium-sized company; it brought an inordinate profit for a new firm; and it was so spectacular that it left tongues hanging out in Wall Street. But the really important byproduct was to put him in intimate touch with the problems gathering around the small, closely held corporation. The Square D Co. had asked Eberstadt to draft a financial plan, and he was working on this when the first shocks of New Deal reform came. In 1934, the maximum federal estate-tax rate was hiked from 45 to 60 percent and, a year later, to 70. Meanwhile, in many states the death duties were also increased.

To Eberstadt, sitting on the inside of a closely held corporation, the effect of these duties upon families and groups controlling smaller enterprises was obvious; where no current market existed for such holdings, a forced sale might be necessary to provide cash to meet the higher death duties. Thinking back, Eberstadt chuckles and quotes what Max Schmeling said when he first saw Joe Louis fight: "I sink I see somesing.". . .

These operations fall into what might be called special situations; they embrace a fairly limited field. Yet, besides keeping his young firm going, the experience helped Mr. Eberstadt down the road; specifically, it introduced him to the little blue chips. The . . . [following are] characteristics . . . that attract Eberstadt: "sound earnings record, compact management, a strong

elli_c01.qxd 11/21/02 3:00 PM Page 9

position in their fields, and an instinct for research." There is another reason why he likes to do business with them. Through the hullabaloo in Washington, Eberstadt saw that the political attacks aimed at the big corporations scarcely touched the little businessman. Instead of haunting Washington, he was staying home and attending to business.

The more Eberstadt studied these small companies, the more convinced he was that here was a chance for an investment banker willing to look beyond the Big Board. Many of them would need financing in the recovery years ahead; and by distributing and listing their securities on the big exchanges he could give them access to the money market. So far as the total possibilities are measurable, Eberstadt had succeeded only in wedging a foot in the door. The new-money financing that he has thus far done for smaller corporations totals . . . $17,000,000.

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To F. Eberstadt & Co., as to every Wall Street investment house, making money is no quotidian [commonplace] routine. It is a long, painstaking task involving two operations: (1) buying an issue, which means getting the issue under contract, preparing it for the SEC, pricing it right, and timing the offering to best advantage, marketwise; and (2) selling it, which means moving the issue into the hands of investors. Because his firm is young and a majority of his clients are not in the habit of making periodic trips to the capital market, Mr. Eberstadt has to spend much more time buying an issue than selling it.

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Mr. Eberstadt likes to think of his firm as a meeting place for smaller corporations in need of new capital and investors with idle funds—and he always emphasizes the new capital. The *quodlibet* here is obvious. For example, Square D, Cleveland Graphite Bronze, Norwich Pharmacal, in fact most of his issues, have been of a special nature: distributing for the account of families or groups, not for the company. However, the emphasis is properly placed in the case of James Talcott, Heller, and Victor Chemical. Here he performed a constructive act in strengthening independents in their separate fields and he is in an excellent position to do more of this sort of financing in the future.

But another real need, capital for *new* enterprises, Ferdinand Eberstadt won't touch—under his own name. He may broker an issue of this sort, but F. Eberstadt & Co. will not underwrite it. Ferd likes nothing better than to discover a new piece of research to pass on to his financial clientele. He will help an established company to raise capital to develop a new product. But further he will not go. The promoter of a new enterprise, however promising, will have to look elsewhere. Eberstadt feels safer with a sure thing.

The quicker you realize this, the sooner you can place Ferdinand Eberstadt in his proper perspective. Filling an economic need, per se, is not his business, and in this he is no different from anyone else on Wall Street except that he is shrewder than most. Fundamentally, Ferd is an opportunist—a word that in Wall Street simply means someone who finds a good thing, times it right, and carries it through. And for further proof of his opportunism consider Chemical Fund, an investment trust of the management type that he brought out in July 1938.

When offerings started to dwindle toward the close of 1937, Eberstadt looked for something to fill the gap. Now, underwriting serves two functions: supplying capital to industry and supplying investments for idle funds. The first side having disappeared, Eberstadt determined to concentrate on the second; and in the absence of capital offerings, shares in an investment trust were just about the only thing that might be apt to tempt investors. Wall Street, however, was littered with investment trusts of almost every kind, and to launch another one with any success would obviously require something special with a new sales appeal.

Victor Chemical had given Eberstadt a good look at the chemical industry, and he liked what he saw. He liked it even better after he and his aides scanned the rest of the industrial horizon. The industry's depression record was good, its future looked firm, especially to a man hipped on research; and he resolved to build his investment trust around chemistry. With characteristic caution, Eberstadt studied innumerable companies, interviewed scores of chemical experts. "I asked them who was the best consultant in the field. They all named themselves first and Arthur Little second." Arthur D. Little, Inc. is a great chemical consulting firm of Boston, now controlled by the Massachusetts Institute of Technology. Mr. Eberstadt persuaded the firm to act as adviser. "I'm no engineer, and if somebody is going to invent a new process that might knock my holdings apart, I want to be well warned." On the strength of this contract, he formed Chemical Fund last July, with $100,000 capital he and his friends put up for 10,000 shares.

Being an open-end trust Chemical Fund has a distant ceiling, of which the limits are roughly set by an authorized capital of 2,500,000 shares of stock. So far, sales of the Fund have averaged around 1,200 shares a day. . . .

Wall Street is a place of hero-worshipers. The big money-makers always have a following—so long as they leave scraps of profits along the way. Wall Street is also a place where prestige comes second only to profits. To an established investment house the fact of having its name on an underwriting list is almost as necessary to its pride as the cut is to its till. To Eberstadt, playing a lone hand, Wall Street's touchiness is of little consequence. His attitude toward the backscratching ritual of the syndicates is summed up in his own words, "Why should I take them in as

elli_c01.qxd 11/21/02 3:00 PM Page 11

participants? As dealers, yes—if they can sell." To an old-line house nothing could rankle more.

On Wall Street you will hear some hard things said about Eberstadt. You will hear it said that he doesn't share underwriting profits and also that he drives what even the Street considers a shrewd bargain, and that he is overly cautious in protecting himself on an issue. The last gripe has to do specifically with the "market-out" clause, a clause allowing the underwriter to pull out if the market looks sour. To protect himself, Eberstadt has insisted upon a market-out clause in almost every contract. Ordinarily this requires a commitment within a few days after the effective date of registration, but on occasion he has extended this privilege over months. In other words he gives himself plenty of time before he decides to go "on the hook."

The fact, however, is that Eberstadt, on practically all of his issues, has gone firm within a day or two of the SEC's clearance. Nevertheless, the hedge is always there, as it is in practically all current underwriting contracts. But it is the liberal period of grace that Eberstadt allows himself before he goes on the hook that raises eyebrows on the Street—that, and his occasional practice of not even contracting for an issue but taking it only on option. To all this Ferd answers, "I don't want to stick anyone else and I damn well don't want to get stuck myself."

Charles Hayden

Charles Hayden was perhaps better known to the public for the planetariums he endowed than as the senior partner of Hayden, Stone & Co. A man who believed that time was a bankable asset, he was active across a broad range of business, public, and cultural involvements, including the financing of most of the New York City area's transit lines.

Charles Hayden, senior partner of Hayden, Stone & Co., bankers, died at 10 o'clock last night in his apartment at the Hotel Savoy-Plaza. He was 66 years old. . . .

Mr. Hayden was an officer and director in 58 corporations, banks, mines and railroads, comprising some of the outstanding utilities and industrial concerns of the country.

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From *The New York Times.*

elli_c01.qxd 11/21/02 3:00 PM Page 12

Rated as one of the most powerful figures in the financial world, and senior partner of the banking firm of Hayden, Stone & Co. . . which was founded in 1892, Mr. Hayden was never publicized to the extent that many other big business men of the day figure in the news.

In 1934 he took rank as one of the city's most distinguished benefactors when he donated $150,000 for the apparatus of the planetarium at the American Museum of Natural History, which bears his name.

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In the few brief biographical sketches that have appeared in recent years of Mr. Hayden, he is described as a rich boy who worked his way up in the brokerage business, starting as a broker's clerk at 21 at $3 a week. He was famous as a fast worker, phenomenally active, and it was a matter of comment in Wall Street that the rising men in his organization took on many of the characteristics of their employer, moving on the jump, talking in quick, clipped sentences and making decisions in a flash.

Mr. Hayden was quoted as saying once that "time is money to a business man, but they don't seem to know it. They pinch pennies and throw away thousands of dollars' worth of time. And they rob other men of thousands of dollars' worth of their time.". . .

In 1892 with a companion clerk, Galen L. Stone, he organized the banking firm of Hayden, Stone & Co., opening an office at 87 Milk Street, Boston, which prospered from the outset. The New York office was opened in 1906.

He became a member of the corporation of the Massachusetts Institute of Technology, and was a member of the Massachusetts State militia for 14 years, rising from a private to paymaster-general.

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Mr. Hayden was chairman of the Research Association of the Massachusetts Institute of Technology, which was formed in 1935 by a group of leaders and organizations in business and industry. When his gift for the purchase of the "artificial heaven" in the planetarium was announced, F. Trubee Davison, president of the American Museum of Natural History, made public a statement by Mr. Hayden, in which he said:

"I believe that the planetarium is not only an interesting and instructive thing, but that it should give more lively and sincere appreciation of the magnitude of the universe and of the belief that there must be a very much greater power than man which is responsible for wonderful things which are daily occurring in the universe. I hope that the planetarium will give many people that view of life."

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elli_c01.qxd 11/21/02 3:00 PM Page 13

Mr. Hayden was listed in James W. Gerard's directory of the men who rule the United States as one of those "who are too busy to hold political office, but who determine who shall hold such office." He exerted his influence over copper mines, railroads, express companies, airplanes, automobiles, public utilities, oil fields, chemical companies and many other industries.

He helped finance most of the transit lines here and was a director in the leading companies in this field. Unification of the city's rapid transit system came within the realm of possibility in February 1935, as the result of a "memorandum of understanding" signed by Samuel Seabury and A. A. Berle Jr., negotiators for the city, and Mr. Hayden, representative of the B.M.T.

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Mr. Hayden was a bachelor and his brother is his only survivor. While devoting so much time to his multiple business connections and to charitable and welfare enterprises, he found time to take part in various social and sports affairs. He was rated in a recent book on reminiscences of Fifth Avenue as one of the 75 persons in New York society invited to all important functions.

Earlier in his life he was fond of steeplechasing and had a stable of thoroughbred horses. Devoted to outdoor sports, he was said to have worked over them as hard as he worked in his office, directing big business. . . . He was also a notable player of bridge. . . .

Among many other corporation posts he held Mr. Hayden was chairman of the board of the Chicago, Rock Island & Pacific Railway and the International Nickel Company; chairman of the executive committee of the Cuba Cane Sugar Corporation; chairman of the finance committee of the Kennecott, Utah, Nevada and Ray Copper companies; a member of the executive committee of the American Locomotive Company, International Cement Corporation, Mack Trucks, Inc., Equitable Trust Company and the New York Trust Company.

elli_c01.qxd 11/21/02 3:00 PM Page 14

Edward A. Pierce

ROBERT COLE

Edward A. Pierce, one of Wall Street's most respected leaders, built an innovative firm that became an important predecessor to the present Merrill Lynch. He led the reformation of the New York Stock Exchange in the 1930s and was 100 years old when he died in 1974.

Edward Allen Pierce, the last living original member of Merrill Lynch, Pierce, Fenner & Smith, Inc., the country's largest brokerage house, died here yesterday in his home. He had turned 100 last August 31.

In 1901, at the age of 27, Mr. Pierce gave up what was then the handsome salary of $100 a week, as manager of a lumber business, to become a $20-a-week clerk on Wall Street.

By good fortune, he picked A. H. Housman & Co., one of the most eminent houses in Wall Street, remembered even today as the firm where J. P. Morgan had kept an account.

By the time he reached the age of 47 he was managing partner of the company. By 1927, as a tribute to his stature in the industry, the firm's name was changed to E. A. Pierce & Co. It was merged with Merrill Lynch & Co. in 1940.

Under his guidance the firm that bore his name became the first to bring stock ticker service from one coast to the other. Soon after World War II he convinced WRUL, the shortwave station, to bring stock quotations to Europe and Latin America.

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Mr. Pierce's name was associated with dozens of important ventures of the times and he was often mentioned as a candidate for top government posts, including chairman of the Securities and Exchange Commission, the industry's chief regulatory body. He was one of the earliest and most prominent supporters of strong federal regulation of stockbrokers.

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Mr. Pierce, who was born in 1874 in Orrington [Maine], once told an interviewer that . . . [some] of the fondest memories of his youth were the Fourth of July strawberry festivals in Maine.

From Robert Cole, *New York Times*, December 17, 1974.

elli_c01.qxd 11/21/02 3:00 PM Page 15

"We young fellows would start ringing the church bell about 11 o'clock at night," he recalled, "and we wouldn't let up 'til morning." By that time the church would serve strawberry shortcake—topped with whipped cream—and served with piping hot coffee. "You gulped down as much as you could," he recalled.

Company records show that he attended Bowdoin College for a while. He dropped out, he once remarked, because it was the start of the deer season.

In 1956 Bowdoin conferred on him an honorary Doctor of Laws degree, pointing to the "sagacity of his New England heritage." Four years later Brown University gave him another degree and spoke of his "Yankee judgment."

Asked once why he had left a "big" job in the lumber business to start over on Wall Street, Mr. Pierce is said to have replied:

"Because the financial world fascinated me and seemed to offer more of a challenge in those far-off days."

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In 1909, Mr. Pierce married Luella Van Hoosear, now 102 years old. They had no children.

Dwight Morrow

HAROLD NICOLSON

Dwight Morrow was so enjoyed and esteemed by others that the senior partner of the law firm he left to join J.P. Morgan & Co. said, "My love of the law went with him." After a productive career as a leading Morgan partner he committed himself to public service, was a magnificently successful ambassador to Mexico and a Senator from New Jersey. Only in his late 50s when he died, he was considered a Presidential possibility. This vignette is from his Morgan days.

One day in the spring of 1917, Dwight Morrow and Mr. Thomas Cochran . . . of J.P. Morgan & Co., had to attend a board meeting up town. They agreed that after the meeting they would lunch together at the Plaza Hotel. As they walked away from the meeting Cochran observed that Morrow was in one of his moods of abstraction. He kept edging

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elli_c01.qxd 11/21/02 3:00 PM Page 16

Cochran off the sidewalk, and when Cochran crossed to his other side, he started, in complete oblivion of his presence, edging him against the shop windows of Fifth Avenue. They entered the Plaza Hotel; they were shown to a table; Cochran ordered luncheon; even when the food was set before him Morrow remained in a trance. Cochran decided to watch just how long this trance would continue. He ate his own meal in silence, motioning to the waiter from time to time to remove from Morrow's place the dishes which accumulated untouched before him. Suddenly, while Cochran was lighting his cigar, Morrow emerged from his stupor. He struck the table with his hand. "That's done it!" he exclaimed. "What," Cochran asked him, "has done what?" "I've mutualized the Equitable! Now, Tom, let's go out somewhere and get something to eat!"

The ingenuity of the scheme which had then occurred to him was such as to be almost incomprehensible to any layman. Its main outlines were as follows: The [Equitable Life Assurance] Society was to transform itself into a mutual life insurance corporation and to purchase from General du Pont the shares that he held. The price of these shares was to be paid in half-annual installments running from November 1, 1917, to May 1, 1937, out of the interest received by the Society upon a mortgage of $20,500,000 given to the Society by the Equitable Office Building Corporation. This involved the surrender to General du Pont of the 9 percent of the dividends of the Equitable Building Corporation hitherto held by the Equitable Life Assurance Society. It also entailed an extension agreement under which the previous mortgage bond of 1913 was altered so that the mortgage should be paid off, not by November 1935 as previously stipulated, but by May 1974.

The minor adjustments necessitated by this device were of the utmost intricacy; yet, even when these had been agreed to, there remained the problem of how to induce General du Pont to part with his holdings at what would certainly represent a heavy loss. To this day it remains a mystery how Morrow was able to secure his consent. The persuasiveness with which he appealed to his sense of public duty was reenforced by their persistence with which, month after month, he drove him into acquiescence. At such moments Morrow was perfectly capable of adopting third degree methods and wearing down his opponent by actual physical exhaustion. And, as always happened with Morrow's victories, the vanquished felt delighted at their own defeat. When, in July of 1917, the Equitable was finally mutualized and the stock handed over to three trustees for the benefit of policyholders, Mr. George Baker drove down to Morgan's office and asked to see Dwight Morrow. He went up to him, took him by the lapels of his coat, and scrutinized him with a penetrating stare. "I just wanted," he explained, "to look at you."

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elli_c01.qxd 11/21/02 3:00 PM Page 17

The mutualization of the Equitable was generally recognized as being one of the most brilliant successes in financial and legal adjustment ever achieved. A less dramatic, more prolonged, but no less complicated problem was that of the Interborough Rapid Transit Company. It must at least be mentioned since it absorbed a great proportion of Morrow's time and energy between the years 1919 and 1927. In the end he became so involved and interested in the New York subway and transit systems that they almost came to represent for him what the "roads of Cephalonia" had represented for Napier. The unification of the whole system was one of his most persistent dreams.

It was Dwight Morrow's custom . . . to approach a problem cautiously and to study it in all its bearings before reaching a decision. Another characteristic was the persistence with which he pursued a problem during the course of several years. Yet when faced with a crisis, he could work with lightning rapidity and dispatch. A good illustration of his more rapid method is furnished by the rescue of Mr. William C. Durant, founder and president of General Motors.

Mr. Durant was an ingenious but haphazard man. He combined breathless energy, great manufacturing ability, and unbounded self-confidence with a reckless disregard for accountancy and a merry contempt for the old-fashioned methods of more stable financiers. For some weeks, during the fall of 1920, rumors had been circulating that Mr. Durant was in difficulties. It was not, however, until 2 P.M. of Thursday, November 18, that Mr. Durant himself became aware that these difficulties called for urgent solution. On that day, at that hour, he telephoned to 23 Wall Street demanding assistance. Dwight Morrow, accompanied by Mr. Cochran and Mr. Whitney . . . proceeded to the offices of General Motors where they found Mr. Pierre du Pont and Mr. John J. Raskob. It was disclosed to them that the situation was a most serious one, involving brokers' loans for $25,000,000 and that calls for additional margin of a most pressing character had been sent to Mr. Durant and would have to be honored immediately. Morrow took the situation under his control. He asked Mr. Durant to sit down at once and prepare a full statement of his assets and obligations, this statement to be ready not later than 9:30 P.M. that night. At 10 P.M., he returned, accompanied by Mr. Pierre du Pont. Already a broker had ensconced himself in the anteroom demanding checks. The ensuing discussion lasted all night. The following agreement was eventually secured. The du Pont interests were to form a security holding company to purchase 2,500,000 shares of General Motors stock from Mr. Durant. The capital of this new company was to be supplied by a subscription to preferred stock of $7,000,000 by the du Pont interests and a loan of $20,000,000 one year 8 percent notes on the part of J.P. Morgan & Co. A memorandum of agreement was initialed at a quarter to six in the morning. During the whole of

elli_c01.qxd 11/21/02 3:00 PM Page 18

the following Friday, Saturday, and Sunday, Dwight Morrow worked upon the contracts and other details. By the opening of the Stock Exchange on Monday morning, all arrangements had been completed and Mr. Durant's brokers began delivering General Motors stock to J.P. Morgan & Co. against payment.

"Yes," Morrow remarked to his partners when the crisis was over, "Yes, Durant thanks us humbly now for saving his life, but within a week he will be cursing us for something else."

Otto H. Kahn

JOHN KOBLER

Otto Kahn was second only to Jacob Schiff at Kuhn, Loeb and was banker to Harriman. A vain, fastidious man, he was not only a devoted patron of the opera, but also a demonic golfer. Once, he nearly stood for Parliament.

The situation had elements of a Feydeau farce. The scene was the senior partners' room of Kuhn, Loeb & Co., the nation's second most powerful private bankers after J. P. Morgan. Some 60 feet long and 40 feet wide, the room took up nearly all of the second floor of the firm's 22-story headquarters on the corner of William and Pine streets. Each of the four senior partners received his clients at a desk in a corner of the oblong expanse, out in the open, visible to everybody in the room, with a small office behind for negotiations requiring greater privacy. The southwest corner belonged to Jerome Hanauer, the northwest to Mortimer Schiff, the southeast to Felix Warburg, and the northeast to the commander in chief of the firm, Otto Hermann Kahn, who had prepared the master coup that would excite Wall Street and the entire railroad industry.

By Kahn's choice it took place on a Saturday morning in April of 1928 . . . for Saturday was the quietest, least crowded time of the workweek, and so he opted for a Saturday convenient to the principals in his scheme.

The challenge Otto Kahn faced was to conciliate two warring railroad magnates, Leonor Fresnel Loree and William Wallace Atterbury, presidents,

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Excerpted from John Kobler, *Otto the Magnificent*, 1989, pp. 3–5 & 27–30 & 41 & 83. Published by John Scribner & Sons.

elli_c01.qxd 11/21/02 3:00 PM Page 19

respectively, of the Delaware & Hudson and the Pennsylvania, both burly six-footers in their sixties. Loree's nose was disfigured by a skin disease.

At the time there existed four major Eastern railroad systems running between New York and Chicago—the Pennsylvania, the New York Central, the Baltimore & Ohio, and the New York, Chicago & St. Louis. Loree, whom ill-informed Wall Streeters dismissed as "a big man with a jerkwater road," proposed to create a fifth system in competition with the four. To that end he added to his holdings enough shares of the Lehigh Valley, the Wabash, the Western Maryland, and the Chicago & St. Louis to obtain control of those lines. Atterbury vigorously opposed the five-system plan. He threatened to file a protest with the Interstate Commerce Commission and to take other dire measures against the interloper. What distressed Kuhn, Loeb was that both adversaries were long-standing clients. They could not allow themselves to side against either. Otto Kahn, his colleagues agreed, had the technical and economic ken, the diplomacy, the knack for mediation, and the personal charm to restore peace between the two railroad titans.

Shortly before 10 A.M., the hour fixed by Kahn, Loree went from his headquarters at 32 Nassau Street to Kuhn, Loeb, only a few steps away. Kahn, welcoming him warmly, walked him into his oak-paneled little office, asked him to wait a few minutes, and left, closing the door behind him. Shortly after 10, again in accordance with Kahn's design, Atterbury arrived from the Pennsylvania Station building and was shown into Mortimer Schiff's office. Neither Loree nor Atterbury was as yet aware of the other's presence. Kahn, a David between two Goliaths, now began moving from one to the other and back again, feeling each man out for any signs of a concession, striving to persuade each to yield a little, and in the end to renounce a destructive competition in favor of a lucrative alliance.

Kahn cut an appealing figure. Small, light-brown-eyed and ruddy-cheeked, his normal expression a gentle smile, he walked with a springy step, his spine erect, his stride soldierly, a carriage that he himself ascribed to his training as a young cavalryman in his native Germany. A slight Germanic accent lingered in his speech, mingled with the broad vowels and clipped consonants of upper-class England, where he had lived for three years. His hair was silvery white, and his mustache waxed to fine points. He wore pearl-gray spats, and the vests beneath his impeccably tailored jackets were trimmed with white piping. Spruce as a Savile Row dandy, a fresh rose in his lapel, he was one of New York's best-dressed men. Lewis Strauss, a later Kuhn, Loeb partner and chairman of the Atomic Energy Commission, described Kahn as "the Lorenzo de Medici of his day . . . with an air of detachment from anything as plebeian as money."

The Loree-Atterbury conflict was not Kahn's only concern that Saturday morning. In Jerome Hanauer's office smoldering like Vesuvius, the Metropolitan Opera's bulky, irascible general manager, Giulio Gatti-Casazza,

elli_c01.qxd 11/21/02 3:00 PM Page 20

waited to confront Kahn, the president and chairman of the board of the Met, with a repetition of complaints. The stage was too short and shallow, the scenery warehouse too far from the theater. There were no rehearsal rooms for ballet, chorus, and orchestra, and too many seats in the side sections provided only a partial view. Felix Warburg's office was fragrant with the presence of a soprano whose identity and purpose the discretion of Kahn's colleagues has obscured. Thus, pulled in four directions, Kahn exercised his wizardry as a conciliator, a mediator, and an expositor of crystalline lucidity.

Gatti-Casazza left placated by the renewal of Kahn's promise to build him a new opera house. The smile illuminating the face of the departing soprano indicated that whatever she wanted she got.

There remained the contending railroad tycoons. At a moment when Kahn considered the psychological climate propitious, he brought them together. The three men now reexamined every facet of the issue. Was there to be the five-system network that Loree's ambition hankered for, or Atterbury's four systems? Toward 1 P.M., three hours after they had entered Kuhn, Loeb, a spectacular solution seemed likely. Subject to the agreement of his board, Atterbury offered to buy Loree's holdings for $102 million. There would be no fifth system. Diplomacy had prevailed. It was one of Otto Kahn's greatest achievements.

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"A promising chap," the National City Bank's James Stillman had once observed of Kahn, who was collecting a lot of fine paintings, "if only he will forget that art nonsense."

The young Kahn's considerable revenue flowed from two main sources. Every December, Kuhn, Loeb . . . distributed the annual profits among the partners. What percentage each partner received depended on seniority, the volume of business he had engendered, and other considerations. Kahn eventually got 14 percent. Railroad reorganizations in the Harriman mode and railroad securities yielded the fattest returns. When Kuhn, Loeb assembled and managed a security-purchase syndicate, it customarily charged a fee of one percent. During their first nine years the securities they underwrote totaled approximately $821 million. Kahn's second major source of capital was Wall Street, where, as an astute investor, he repeatedly realized a killing. Thus, his means, together with Addie Kahn's inheritance, enabled the couple to live grandly. But he was never, as the press persistently misreported, "one of the richest men in America." It is difficult to estimate how much his fortune amounted to at any given period because he spent money as fast as he made it, sometimes faster. "I must atone for my wealth," he said on several occasions. "I will reward the country of my adoption for the great benefits I have gathered." In all probability his liquid assets never topped $50 million, a paltry sum in those halcyon days

elli_c01.qxd 11/21/02 3:00 PM Page 21

before federal taxation when compared to the royal wealth of a Rockefeller, a Carnegie, or a Morgan. It was more than enough, however, to maintain a town house just off Fifth Avenue at 8 East Sixty-eighth Street.

On February 5, 1905, while the Kahn family was at the New York house, a faulty flue and an overheated furnace started a fire near Mrs. Kahn's boudoir at Cedar Court [the Kahn's country place]. . . . The blaze engulfed art objects, paintings, and an Egyptian rug woven at a cost of $100,000 to cover a living room 75 feet square. The total damage came to $750,000.

On the site of the incinerated house Kahn built a Palladian villa harmonizing with the architecture of the surviving structure, and he further embellished the grounds. Together with what his father-in-law had laid out there were now horse trails, an 18-hole golf course, a squash court, a croquet court, a tennis court, greenhouses, sunken gardens, a pond on which swans floated amid exotic water plants, a 40-acre deer park, and a wooden roller-skating rink that meandered through woods where the deer grazed. The estate, according to one of the gardeners, "showed people what God could have done if he'd had the money.". . .

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Men in Kahn's business milieu tended to regard the opera world as effete, no place for a serious financier. Colleagues warned him against involving himself in operatic or theatrical activities lest he alienate people important to his business. No reputable banker, they insisted, should associate himself with such frivolous doings.

He consulted Harriman, who, to his amazement, told him: "You just go ahead and do your art job, but don't dabble in it. Make it one of your serious occupations. As long as you do not let it interfere with your other work, with your business duties and ambitions and thoughts, it will do you no harm. On the contrary, it will exercise your imagination and diversify your activities. It ought to make a better businessman out of you."

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He was as fastidious a dresser, and as vain of his person, as a matinee idol. His clothes closets contained, among a vast collection of ensembles, eight identical pinstripe business suits, and he would stand before them lost in contemplation before choosing the one he would wear to work that morning.

At musical or theatrical first nights, on or off Broadway, no matter how unpretentious the performance, he would emerge from one of his Rolls-Royces in full fig, a satin-lined cape draped over evening dress, wearing a silk top hat and swinging an ebony cane with a silver ball for a handle.

Saturday morning was devoted to golf on his own 18-hole course. . . . If he invited others to join him, the time customarily fixed was 10. Should they fail to appear within three minutes after the hour, he was likely to tee off without them. A bit of a duffer, who hated to lose at any game, he

elli_c01.qxd 11/21/02 3:00 PM Page 22

would, if he hit too often into a bunker, have it removed, and if he shot too wide of a green, he would order the green repositioned.

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By the fall of 1912, Kahn was so nearly sure of entering British politics that he began hunting for London real estate. The first property that seized his fancy was 2 Carlton House Terrace, a showplace of 28 rooms with a price tag of $500,000. The owner, one of the world's wealthiest women, was formerly married to an American millionaire, Marshall Field Jr., and also formerly to a Scottish multimillionaire, Maldwin Drummond. Kahn cabled Mrs. Drummond, expressing interest in the estate, then changed his mind. He preferred to take a year's lease for $20,000 (and later to buy for a million dollars) the Earl of Londesborough's Regency mansion, St. Dunstan's Lodge, standing amid twelve and a half acres at the center of Regent's Park, London's second largest private residence after Buckingham Palace. . . .

Mrs. Drummond, meanwhile, having mistaken Kahn's cable as a firm offer, accused him of bad faith. Incensed, he showed a copy of the cable to his attorneys, who assured him that it implied no such agreement. Thus armored in the conviction of rectitude, he made a typically Kahnian gesture. With St. Dunstan's already on his hands, he bought 2 Carlton House Terrace, never occupied it, and resold it at a loss. "I would much rather be burdened with a house I cannot use," he said, "than rest under the imputation of attempting to evade a moral commitment."

elli_c01.qxd 11/21/02 3:00 PM Page 23

André Meyer

CARY REICH

André Meyer built Lazard Frères into one of the most effective and profitable investment banking firms in America. He also developed an extraordinary network of contacts, acquaintances, and relationships with the nation's financial, political, and social powers and made a large fortune as an investor before he died at 81 in 1979. This excerpt tells us how Meyer, improbably, takes over in New York years after being forced to leave France by the Nazis.

In many ways, André Meyer was not a nice man.

He was greedy, vindictive, domineering, and often quite sadistic. His constant browbeating and temper tantrums made life unbearable for his business associates and his family. No matter how wealthy he became—and he became *very* wealthy—he could not stop plotting and scheming to build an even bigger fortune. He would allow nothing and no one to get in his way. Once, a Lazard colleague gave some investors the right of first refusal on a deal, after they had given Lazard first-refusal rights on one of *their* transactions. After all, this Lazard partner explained, it was a two-way street. Meyer was furious. "Where is it written there is a two-way street?" he demanded.

"He could be brutal, and he *enjoyed* being brutal," says his old friend Andrea Wilson, who worked for Meyer as a securities analyst. "When he was through with somebody, when he wanted to get rid of you, it was something to behold." But Wilson readily recognized what others only grudgingly acknowledged: that Meyer could not have come as far as he did—specifically, from obscure lower-middle-class origins—by relying solely on gentility and charm. "For him to break through to the extent that he did, and to achieve the position that he did, that took something," she says.

What it took was the ruthlessness of the totally self-made man, writ large. And leaving aside his methods and his personality, there can be little doubt that André Meyer did accomplish great things. "What Horowitz is to the piano," said a friend, "what Picasso was to painting, André Meyer was to banking.". . .

Excerpt from Cary Reich, *Financier*, William Morrow and Company. 1985, Chapters 2, 4, pp. 18–19, 36–42.

elli_c01.qxd 11/21/02 3:00 PM Page 24

The son of a struggling Paris printing salesman, Meyer left school in 1914, when he was sixteen years old, to become a messenger on the Paris Bourse. By the time he reached thirty, he was a partner in the eminent private banking firm of Lazard Frères. By the age of forty, he had helped save the foundering auto giant Citroën, had founded France's first consumer finance company, and was awarded the Legion of Honor.

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When the Meyers arrived in New York, their first stop was a luxury hotel, the Stanhope. Then, after a short stay, they moved on to another luxury hotel, the Delmonico. After a brief while, they moved on to another, then another, before finally settling into one of the poshest of them all, the Carlyle. "We were in all sorts of hotels," remembers Philippe Meyer. "Some were too big, some were too small."

The Meyers' life as well-heeled nomads had more to do with André's state of mind than with the family's living requirements. During those initial months in the United States he was uncertain and unstable, alternating between his natural restlessness to *do* things and an acute torpor that prevented him from doing *anything*. For days on end he would lie on his hotel suite soft in his pajamas, mired in depressed contemplation of his plight. "It was all a great shock for him—Nazism, the war, France's defeat," says Philippe. "On the personal side, he had been a great, great success, and suddenly everything collapsed, and he had to start all over again. And he didn't know if he had the strength or the courage to do it."

Suddenly, he was adrift in a world whose language he barely knew; whose ways were strange and unfathomable; whose movers and shakers were, for the most part, merely names to him, nothing more. The sureness and self-confidence with which he had cut such a quick, broad swatch through the French banking world were now denied him; in their place were the fumbling and groping of someone stumbling across a darkened room. His mastery of the Bourse and his hard-won roster of Paris contacts were of little use to him now.

It was not that he and his family were starving. He had discreetly transferred enough of his wealth to accounts outside of France in the months before the war to assure them of a comfortable existence. But for André Meyer, to be denied his métier was virtually to be deprived of life itself.

He lay on the sofa awhile longer. And then he steeled himself and went to work.

Not at Lazard, though; the New York firm was an entity that functioned independently of Paris, and while he was welcome to hang his hat there, he didn't really fit. Instead, he rented an office of his own in the same Wall Street-area office building that housed Lazard, 120 Broadway.

elli_c01.qxd 11/21/02 3:00 PM Page 25

He would be on the thirty-second floor, while Lazard was down on the ground floor and the fifth. . . .

From his perch, Meyer gradually began to master the workings of American business and American banking. He was far enough away from Lazard to be totally detached from its activities—yet close enough to watch what was happening. And watch he did.

Lazard Frères New York was then run by Frank Altschul. Few men could have brought to the job a more impressive pedigree.

Altschul's father, Charles, was the eighth employee hired by Lazard Frères and spent his entire business life there, rising to one of the highest positions in the San Francisco bank. Upon moving to New York in 1901, when Frank was fourteen, the Altschul's became members in good standing of the "Our Crowd" network of German-Jewish banking families. In the best Our Crowd tradition, the Altschuls soon became securely intertwined by marriage with another prominent banking family, the Lehmans; Frank's sister Edith became the wife of Herbert Lehman, the future governor of New York, and Frank himself married Herbert Lehman's niece, Helen Lehman Goodhart. After graduating from Yale in 1908, Frank joined his father at Lazard in New York; and when Charles Altschul stepped down as a partner in 1916, Frank took his place.

Frank soon rose to be one of Wall Street's grand dukes, both in style and influence. In the 1930s, he served on the governing board of the New York Stock Exchange and became a director of the Rockefeller family bank, the Chase National. During the 1920s, while André Meyer was speculating on the rise and fall of the French franc, Altschul was advising the French government on how to steady the currency and was awarded a Legion of Honor. One of the world's most prominent rare-book collectors, Altschul set up his own small printing plant, Overbrook Press, at his 450-acre Connecticut estate to turn out exquisitely printed and illustrated limited editions. And, faithfully each fall, Altschul would ride to hounds in the Fairfield and Westchester hunts. . . .

The Lazard that Frank Altschul ran was every bit the epitome of the old-line, prewar Wall Street firm. It did a little of this and a little of that. . . . The partners still worked at rolltop desks in a big old-fashioned partners' room. In one corner, behind a battery of four telephones on his mahogany desk, sat Altschul, the smoke of his pipe lazily floating past the rare prints hanging on the walls.

The firm's business took a turn for the worse with the outbreak of the Second World War. Bond underwritings were few and far between. . . . But Altschul and the four other partners weren't panicking. Business had been good before, and it would be good again. All it took was a little time and a little patience, and everything would be as it was.

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elli_c01.qxd 11/21/02 3:00 PM Page 26

In the meantime, Altschul was doing his best to help the émigré partner who arrived on his doorstep in the summer of 1940.

Virtually from the moment the Meyers stepped off their clipper, Altschul had been in the wings offering aid, advice, and companionship. He helped them find a hotel. He suggested private schools for the children. He invited them to spend their weekends at his Connecticut estate. . . .

Then, in 1942, Frank Altschul found himself with another uprooted Paris partner on his hands: Pierre David-Weill, newly arrived in New York. The urbane, aristocratic crown prince of Lazard Paris, however, needed far less handholding than Meyer, having long since acclimated himself to American ways and customs; from 1926 through 1939 he had visited the United States at least one or two months a year. David-Weill's attitude toward Meyer at this point was an ambivalent one. . . . With his air of jaunty, moneyed self-assurance, David-Weill had far more in common with Altschul than he did with his old partner. And, indeed, David-Weill and Altschul soon became fast friends.

In view of all this, Meyer definitely seemed to be the odd man out. Yet, unaccountably, he was starting to show signs of his old bounciness. To some of his new friends—chiefly fellow French émigrés—he was positively cocky, with the ebullience of someone bursting to tell them a wondrous secret. To a few, he confided what it was: "In one year," he told these friends, "I will be the boss."

Coming from someone so out of place, someone who barely spoke English, it was a rather bizarre prophecy. But that is exactly what happened.

In the December 16, 1943, *New York Times* appeared this announcement:

ALTSCHUL RETIRING
FROM LAZARD FIRM

WILL QUIT DEC. 31—PARIS HOUSE
RESIDENTS AND 2 OTHERS TO
BE ADMITTED THEN

> Frank Altschul will retire from partnership in Lazard Frères & Co., investment bankers here, on Dec. 31, the firm announced yesterday. He will continue as a member of the New York Stock Exchange and will remain president of the General American Investors Company, Inc.
>
> Pierre David-Weill and André Meyer of the Paris firm of Lazard Frères et Cie., residents in New York for several years, will be admitted as resident partners of the New York firm. The French firm also will continue as a partner in the house here.

elli_c01.qxd 11/21/02 3:00 PM Page 27

Frank Altschul, in essence, was sent packing—with General American Investors bestowed upon him in the manner of a going-away present.

How did Meyer and David-Weill do it? How did they manage to unseat a man who had been a dominant force in the New York firm for over 35 years, whose family had been a part of Lazard almost from the beginning, whose power and connections in the financial world and in New York society were so formidable?

The short answer is that while he ran Lazard New York, Frank Altschul never actually had voting control of it. That power had always remained in the hands of the David-Weill family—as the sole blood relations of the Lazards still in the banking empire in the early forties—and to a lesser extent in the hands of the other partners in the French house, including Meyer, who were given shareholdings by the David-Weills over the years. . . .

Meyer, it was now clear, had simply been biding his time during those first three years, watching and waiting in his aerie for the right moment to strike. And when he felt he knew enough, he did what he had had the power to do all along, secure in the knowledge that David-Weill would back him up. Because for David-Weill, too, the demands of the times—namely, the need to secure a beachhead for himself in the only major nation unscarred by the war—outstripped the demands of friendship. And given the choice, David-Weill preferred to hitch his family's fortune to André Meyer rather than to Frank Altschul. David-Weill and Meyer would share control of the New York house, but from the outset David-Weill let Meyer dominate its affairs.

The man they displaced, meanwhile, went on to successfully run General American Investors until his retirement in 1961, while continuing his rare-book collecting and publishing and his myriad philanthropic activities. But he never forgave André Meyer. "To the best of my knowledge," says someone who knew both Meyer and Altschul, "André and Frank never spoke to each other again.". . .

If André Meyer felt any remorse over the turn of events, he never revealed it. As far as he was concerned, Lazard was simply not big enough for both him and Frank Altschul.

George Ames, a young assistant in Lazard's corporate underwriting department, had quit the firm in 1942 to join the navy. When he came back in 1946 to pick up where he had left off, he was amazed by what he found. The old rolltop desks were gone. The old partners' room was gone. And the old partners were gone, too.

And running the firm was the awkward, mysterious Frenchman from the thirty-second floor.

What André Meyer had in mind, from the start, was the total gutting and rebuilding of Lazard Frères. Lazard's mix of business—which was

elli_c01.qxd 11/21/02 3:00 PM Page 28

typical for a firm of its size—he regarded as an unstructured, unprofitable hodgepodge. And Lazard's partners and staff, as far as he was concerned, were largely a bunch of lazy mediocrities. In both areas, he wasted no time forcing through major upheavals.

By 1945, all the old partners had been dismissed. By 1948, the firm had shut down its Boston, Philadelphia, and Chicago offices, and had become, once again, a one-office house. . . .

The branches were anathema to Meyer on two counts: first, they built up overhead, and he intended to run as bare-bones an operation as he possibly could. Second, they were largely in the retail stockbrokerage business, which meant they dealt with the general public. André Meyer did not want Lazard to deal with the general public. He wanted the New York firm to be what the French firm was: a very private, very elite house whose customers were corporations, financial institutions, and a few wealthy friends of the proprietor. Exclusivity, even a certain snobbishness, were to be encouraged. . . .

But at the same time, Meyer was acutely conscious of his own shortcomings. He knew few of the powerhouses of corporate America, few of the bankers who made the financial system tick. To gain the sort of clientele he sought, he needed someone who could open the right doors, and who was as well known and respected in America as he had been in France. Fortunately, he found such a person almost immediately. His name was George Murnane.

By the time he joined forces with André Meyer, Murnane was already something of a legend in the investment-banking business. As one of the top partners in Lee, Higginson & Company, he had gained a reputation as a superb deal-maker whose determination and grittiness were second to none. . . .

Murnane's string of successes, however, was abruptly cut short by the troubles that dogged his firm. Lee, Higginson had been the leading bankers for Swedish match king Ivar Kreuger, and when Kreuger's empire collapsed after his suicide in 1932, Lee, Higginson was buried in the rubble. Virtually wiped out, Murnane started from scratch again in a partnership with a French financier, Jean Monnet. Their firm, Monnet & Murnane, thrived, thanks to both men's extensive international connections. But when another world war loomed, Monnet quit to work on building up the Allied defensive forces, and Murnane was on his own again. He was not someone who enjoyed being a lone wolf. And so, when Meyer asked him in the fall of 1944 if he was interested in helping rejuvenate Lazard, Murnane leaped at the opportunity.

He brought with him, as Meyer knew he would, a network of contacts that was the envy of almost every investment banker in America. He was a director of Allied Chemical & Dye and American Steel Foundries, and was the main American adviser for Belgium's great industrial dynasties, the

elli_c01.qxd 11/21/02 3:00 PM Page 29

Solvays and the Boëls. What's more, he was the key investment banker for many of America's leading glass companies. His prestige was such that wherever he went, this business followed. So Lazard suddenly fell into a block of clients it had never had before—and Meyer had his instant entrée to corporate America.

Murnane, in fact, was the only other individual at Lazard, other than Pierre David-Weill, whom Meyer could or would accept as a peer. He needed George Murnane, a lot more than Murnane needed him. . . .

Still, there were limits to what even a Murnane could do for Meyer. Lazard also required someone who could serve as a liaison to Wall Street, particularly to the syndicate managers, the tightly knit group of brokerage-house executives who controlled the allocation and flow of new stock and bond issues. Theirs was a world of patrician after-hours camaraderie, a world whose inner circle was closed to foreigners, and for that matter to anyone who hadn't gone to a select handful of Ivy League schools. The only way Meyer could gain access to it was to hire one of *them.*

After making some discreet inquiries around the Street, Meyer came up with just the man he was looking for: Edwin Herzog, late of Shields & Company and the United States Army Air Corps. Still in uniform, his discharge papers in his pocket, he met with Meyer and Murnane at Meyer's summerhouse in Ossining, New York, in 1945. Outwardly gregarious but inwardly flinty, Herzog seemed perfectly suited for the demands of the job. Meyer told him he could take charge not only of syndication, but of securities sales and trading. His first task, Herzog recalls, was to "clean out a lot of the deadwood that was sitting here, trading and pretending to be bond dealers."

As logical as the acquisitions of Murnane and Herzog were, in view of Meyer's own limitations, Meyer's other key personnel move must have seemed to Lazard-watchers eminently *illogical.* That was to bring on board, as a partner involved in investment strategy, Albert Joseph Hettinger, Jr. The lanky, quiet, pipe-puffing Hettinger was a rather unlikely soul to be spending his time in the hurly-burly of Wall Street, let alone in the company of the hustling, impatient André Meyer. A former Harvard Business School professor, Hettinger had ambled into the securities business in the mid-1920s and, in 1935, found a position at General American Investors. When Meyer offered him a partnership upon taking over Lazard, Hettinger was still what he had been for most of his career: a scholarly, often absentminded, and slow-moving observer of the securities markets.

But Meyer saw something in Hettinger that eluded nearly all his contemporaries: that behind the philosophical facade was a man with a unique gift for ferreting out investment opportunities. It was a talent that Meyer cherished. The hiring of Hettinger, in fact, said more about the direction in which Meyer was moving than anything else he did during those first few years at the helm.

elli_c01.qxd 11/21/02 3:00 PM Page 30

By the mid-forties, the term “investment banking” had evolved into a classic misnomer, since most of its practitioners were neither investors nor bankers. Banking in the traditional sense—the gathering of deposits and the making of loans—had been ruled off limits for these firms by the Glass-Steagall Act. And investing of the sort done by such hallowed figures as Jacob Schiff and J. Pierpont Morgan at the turn of the century—putting one’s own and one’s bank’s money into potentially lucrative new ventures—was virtually an extinct art form.

The role investment bankers now played was almost strictly that of financial intermediaries. They would advise companies on financing strategy, and when the time came for the companies to raise money in the market, the investment bankers would underwrite the stock or bond issues. Investment-banking underwriters did not really keep the stocks and bonds on their own books; they would purchase the issue from the company and then resell it to institutions such as pension funds or insurance companies, or to individual investors, at a spread, or commission.

That, in a nutshell, was what Lazard New York did before Meyer came along. And as his hiring of Murnane and Herzog showed, it was a business he still very much wanted to pursue.

But with the Second World War drawing to a close and America girding itself for recovery, the people Meyer closeted himself with most weren’t Murnane and Herzog, but Al Hettinger and Fred Wilson, the young man Meyer had also just brought over from General American Investors. Hettinger and Wilson weren’t corporate advisers or new-issue specialists. They were securities analysts, men who specialized in finding intriguing investment opportunities.

The message was clear. André Meyer didn’t want Lazard to be only an investment banker. He wanted Lazard to be an *investor*.

Meyer could see a postwar boom coming, and he wanted to be in on it—not just as an intermediary but as a principal. . . .

He didn’t have to wait long. In April 1946, the U.S. Supreme Court upheld the Securities and Exchange Commission’s power to break up the giant public-utility holding companies. The decision sent the stock prices of such holding companies as Electric Bond & Share into a tailspin. Meyer, Hettinger, and Wilson concluded that the inherent values of the holding-company shares—even assuming forced breakups—were well in excess of what the shares were selling at. So they bought and bought and bought—for Lazard and for themselves. . . .

When utilities were broken up, the Lazard partners’ perceptions were proven correct. The liquidation values of the shares were far above what the market had foreseen. “It was about the easiest money I’ve ever made,” says Wilson. “It’s still hard to believe, it was so easy.”

André Meyer had had his first taste of the opportunities the post-war economy offered. It only whetted his appetite for more.

elli_c01.qxd 11/21/02 3:00 PM Page 31

At Lazard, other changes were afoot.

Each year, in the old days, the firm would have a big, raucous Christmas party. In 1944, Meyer attended his first one and was flabbergasted by the amount of alcohol that was consumed.

The next year, there was no whiskey at the party, only champagne. And even that . . . "was measured out with some care."

It was now, truly, André Meyer's Lazard Frères.

Robert Lehman

STEPHEN BIRMINGHAM

Bobby Lehman allegedly kept the titans of Lehman Brothers—at the firm's peak of power—under his control by encouraging them to war among themselves. That way, they would feel a protective need and be too tired to disobey him. He eventually assembled a great house—and a great art collection—but had not built a great firm.

Robert Lehman, Philip's son and the present head of Lehman Brothers, . . . has been called "the last of the imperiously rich men" and "the aristocrat of the autocrats." Robert Lehman's power in the money market is . . . vast . . . , and the phrase, "Bobby wants to speak to you," stikes terror in the breast of all at 1 South William Street. His office in the building is small—many junior partners have larger space—but it gives him a psychological advantage. "When you go into that little office, you really feel crowded out by him," says one man. He himself, also slight of stature, seems to fill the room.

Lehman, however, in recent years has turned his attention increasingly to his art collection. Started by his father, who bought paintings more for an investment than out of a love of beauty, the Lehman Collection has been so enormously added to by Robert that it is now the largest, and possibly the finest, private art collection in America. . . . The collection—guided by Robert Lehman's straightforward philosophy, which is, "If I see something I like, I buy it"—hangs in the offices of Lehman Brothers downtown, and also on the walls of Robert Lehman's 18-room Park Avenue apartment. But the bulk of it is contained in the late Philip Lehman's

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town house in Fifty-fourth Street, which his son maintains as a private museum and which outsiders—art scholars only—may see by appointment. Here, heavily guarded, behind gold doors and in rooms covered with deep Persian rugs and hung with gold-fringed red plush, are most of the old masters, the Gothic tapestries, the Renaissance furniture, the Italian majolica, and the other *objets d'art.* Often at night the collector himself visits the house, sometimes with his curator, sometimes alone, and prowls the great, silent rooms like a solitary Croesus contemplating all that he has amassed.

It was once supposed that Robert Lehman, being a banker, would buy art more with an eye to the dollar than with discrimination or taste. There is a concentration, in the collection, on Sienese primitives, which are painted with a great deal of gold leaf, and Lehman's public-relations man, Benjamin Sonnenberg, once commented, "What other kind of paintings would a banker buy than Sienese, with all that gold in them?" At the same time, when some 300 items from the Lehman Collection were sent for exhibit at the Orangerie of the Louvre in Paris in the summer of 1956, one French critic wrote; "We would like the purchases of our museums to be inspired by a taste as severe as that of which M. Robert Lehman today gives us dazzling evidence." The exhibition was the talk of Paris, waiting lines formed outside the Orangerie, and over 17 thousand people saw the show in the first two weeks alone—statistics which gratified the banker in Robert Lehman.

Today Bobby Lehman is 74, and the collection continues to grow. Its total value is now impossible to calculate, and, inheritance taxes being what they are, it is unlikely that Lehman's son or any of his other heirs will be able to maintain the Lehman Collection intact and in the family.[1] The future of the town house in Fifty-fourth Street is uncertain, and the subject of much speculation in the art world. Benjamin Sonnenberg, however, has an answer. He says of his friend and client, "To begin with, Bobby isn't *going* to die. He's firmly convinced he's immortal. And furthermore, if he should turn out to be wrong, being a Lehman he'll figure out some way to take it all with him."

Robert Lehman himself is quite aware that his death and the disposition of his collection are often discussed,* and he is able to view his situation with a certain humor. Not long ago he visited the Sterling and Francine Clark Institute in Williamstown, Massachusetts, where twin tombs for the museum's founders flank the entrance to the building that houses *their* art collection. Starting up the museum's steps, he paused to gaze solemnly at the marble plaques bearing the names of Mr. and Mrs. Clark. He whispered softly, "What a way to go!"

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[1]The collection is now separately and handsomely on display at the Metropolitan Museum of Art in New York.

elli_c01.qxd 11/21/02 3:00 PM Page 33

Edwin Lefèvre

EDWIN LEFÈVRE

Edwin Lefèvre was a self-styled "Stock Operator" from the early 1900s, who had been "in the speculative game" since he was 14. He wrote with charm and insight. Mr. Johnson said that reading Lefèvre's *Reminiscences of a Stock Operator* stimulated him to leave the life of a Boston lawyer to take over the Fidelity funds. Readers will sense this same feeling of fascination.

The recognition of our own mistakes should not benefit us any more than the study of our successes. But there is a natural tendency in all men to avoid punishment. When you associate certain mistakes with a licking, you do not hanker for a second dose, and, of course, all stock-market mistakes wound you in two tender spots—your pocketbook and your vanity. But I will tell you something curious: A stock speculator sometimes makes mistakes and knows that he is making them. And after he makes them he will ask himself why he made them; and after thinking over it cold-bloodedly a long time after the pain of punishment is over he may learn how he came to make them, and when, and at what particular point of his trade; but not why. And then he simply calls himself names and lets it go at that.

Of course, if a man is both wise and lucky, he will not make the same mistake twice. But he will make any one of the ten thousand brothers or cousins of the original. The Mistake family is so large that there is always one of them around when you want to see what you can do in the fool-play line.

To tell you about the first of my million-dollar mistakes I shall have to go back to this time when I first became a millionaire, right after the big break of October 1907. As far as my trading went, having a million merely meant more reserves. Money does not give a trader more comfort, because, rich or poor, he can make mistakes and it is never comfortable to be wrong. And when a millionaire is right his money is merely one of his several servants. Losing money is the least of my troubles. A loss never bothers me after I take it. I forget it overnight. But being wrong—not taking the loss—that is what does the damage to the pocketbook and to the soul. You remember Dickson G. Watts' story about the man who was so nervous that a friend asked him what was the matter.

"I can't sleep," answered the nervous one.

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"Why not?" asked the friend.

"I am carrying so much cotton that I can't sleep thinking about it. It is wearing me out. What can I do?"

"Sell down to the sleeping point," answered the friend.

As a rule a man adapts himself to conditions so quickly that he loses the perspective. He does not feel the difference much—that is, he does not vividly remember how it felt not to be a millionaire. He only remembers that there were things he could not do that he can do now. It does not take a reasonably young and normal man very long to lose the habit of being poor. It requires a little longer to forget that he used to be rich. I suppose that is because money creates needs or encourages their multiplication. I mean that after a man makes money in the stock market he very quickly loses the habit of not spending. But after he loses his money it takes him a long time to lose the habit of spending.

After I took in my shorts and went long in October 1907, I decided to take it easy for a while. I bought a yacht and planned to go off on a cruise in southern waters. I am crazy about fishing and I was due to have the time of my life. I looked forward to it and expected to go any day. But I did not. The market wouldn't let me.

I always have traded in commodities as well as in stocks. I began as a youngster in the bucket shops. I studied those markets for years, though perhaps not so assiduously as the stock market. As a matter of fact, I would rather play commodities than stocks. There is no question about their greater legitimacy, as it were. It partakes more of the nature of a commercial venture than trading in stocks does. A man can approach it as he might any mercantile problem. It may be possible to use fictitious arguments for or against a certain trend in a commodity market; but success will be only temporary, for in the end the facts are bound to prevail, so that a trader gets dividends on study and observation, as he does in a regular business. He can watch and weigh conditions and he knows as much about it as anyone else. He need not guard against inside cliques. Dividends are not unexpectedly passed or increased overnight in the cotton market or in wheat or corn. In the long run commodity prices are governed but by one law—the economic law of demand and supply. The business of the trader in commodities is simply to get facts about the demand and the supply, present and prospective. He does not indulge in guesses about a dozen things as he does in stocks. It always appealed to me.

Of course the same things happen in all speculative markets. The message of the tape is the same. That will be perfectly plain to anyone who will take the trouble to think. He will find if he asks himself questions and considers conditions, that the answers will supply themselves directly. But people never take the trouble to ask questions, leave alone seeking answers. The average American is from Missouri everywhere and at all times except when he goes to the brokers' offices and looks at the tape, whether it is

elli_c01.qxd 11/21/02 3:00 PM Page 35

stocks or commodities. The one game of all games that really requires study before making a play is the one he goes into without his usual highly intelligent preliminary and precautionary doubts. He will risk half his fortune in the stock market with less reflection than he devotes to the selection of a medium-priced automobile.

This matter of tape reading is not so complicated as it appears. Of course you need experience. But it is even more important to keep certain fundamentals in mind. To read the tape is not to have your fortune told. The tape does not tell you how much you will surely be worth next Thursday at 1:35 P.M. The object of reading the tape is to ascertain, first, how and, next, when to trade—that is, whether it is wiser to buy than to sell. It works exactly the same for stocks as for cotton or wheat or corn or oats.

You watch the market—that is, the course of prices as recorded by the tape—with one object: to determine the direction—that is, the price tendency. Prices, we know, will move either up or down according to the resistance they encounter. For purposes of easy explanation we will say that prices, like everything else, move along the line of least resistance. They will do whatever comes easiest, therefore they will go up if there is less resistance to an advance than to a decline; and vice versa.

Nobody should be puzzled as to whether a market is a bull or a bear market after it fairly starts. The trend is evident to a man who has an open mind and reasonably clear sight, for it is never wise for a speculator to fit his facts to his theories. Such a man will, or ought to, know whether it is a bull or a bear market, and if he knows that he knows whether to buy or to sell. It is therefore at the very inception of the movement that a man needs to know whether to buy or to sell.

Let us say, for example, that the market, as it usually does in those between-swings times, fluctuates within a range of ten points; up to 130 and down to 120. It may look very weak at the bottom; or, on the way up, after a rise of eight or ten points, it may look as strong as anything. A man ought not to be led into trading by tokens. He should wait until the tape tells him that the time is ripe. As a matter of fact, millions upon millions of dollars have been lost by men who bought stocks because they looked cheap or sold them because they looked dear. The speculator is not an investor. His object is not to secure a steady return on his money at a good rate of interest, but to profit by either a rise or a fall in the price of whatever he may be speculating in. Therefore the thing to determine is the speculative line of least resistance at the moment of trading; and what he should wait for is the moment when that line defines itself, because that is his signal to get busy.

Reading the tape merely enables him to see that at 130 the selling had been stronger than the buying and a reaction in the price logically followed. Up to the point where the selling prevailed over the buying, superficial students of the tape may conclude that the price is not going to

elli_c01.qxd 11/21/02 3:00 PM Page 36

stop short of 150, and they buy. But after the reaction begins they hold on, or sell out at a small loss, or they go short and talk bearish. But at 120 there is stronger resistance to the decline. The buying prevails over the selling, there is a rally and the shorts cover. The public is so often whipsawed that one marvels at their persistence in not learning their lesson.

Eventually something happens that increases the power of either the upward or the downward force and the point of greatest resistance moves up or down—that is, the buying at 130 will for the first time be stronger than the selling, or the selling at 120 be stronger than the buying. The price will break through the old barrier or movement-limit and go on. As a rule, there is always a crowd of traders who are short at 120 because it looked so weak, or long at 130 because it looked so strong, and, when the market goes against them they are forced, after a while, either to change their minds and turn or to close out. In either event they help to define even more clearly the price line of least resistance. Thus the intelligent trader who has patiently waited to determine this line will enlist the aid of fundamental trade conditions and also of the force of the trading of that part of the community that happened to guess wrong and must now rectify mistakes. Such corrections tend to push prices along the line of least resistance.

And right here I will say that, though I do not give it as a mathematical certainty or as an axiom of speculation, my experience has been that accidents—that is, the unexpected or unforeseen—have always helped me in my market position whenever the latter has been based upon my determination of the line of least resistance. Do you remember that Union Pacific episode at Saratoga. . . ? Well, I was long because I found out that the line of least resistance was upward. I should have stayed long instead of letting my broker tell me that insiders were selling stocks. It didn't make any difference what was going on in the directors' minds. That was something I couldn't possibly know. But I could and did know that the tape said: "Going up!" And then came the unexpected raising of the dividend rate and the 30-point rise in the stock. At 164 prices looked mighty high, but as I told you before, stocks are never too high to buy or too low to sell. The price, per se, has nothing to do with establishing my line of least resistance.

You will find in actual practice that if you trade as I have indicated any important piece of news given out between the closing of one market and the opening of another is usually in harmony with the line of least resistance. The trend has been established before the news is published, and in bull markets bear items are ignored and bull news exaggerated, and vice versa. Before the war broke out the market was in very weak condition. There came the proclamation of Germany's submarine policy. I was short 150 thousand shares of stock, not because I knew the news was coming, but because I was going along the line of least resistance. What happened came out of a clear sky, as far as my play was concerned. Of course I took advantage of the situation and I covered my shorts that day.

elli_c01.qxd 11/21/02 3:00 PM Page 37

It sounds very easy to say that all you have to do is to watch the tape, establish your resistance points and be ready to trade along the line of least resistance as soon as you have determined it. But in actual practice a man has to guard against many things, and most of all against himself—that is, against human nature. That is the reason why I say that the man who is right always has two forces working in his favor—basic conditions and the men who are wrong. In a bull market bear factors are ignored. That is human nature, and yet human beings profess astonishment at it. People will tell you that the wheat crop has gone to pot because there has been bad weather in one or two sections and some farmers have been ruined. When the entire crop is gathered and all the farmers in all the wheat-growing sections begin to take their wheat to the elevators the bulls are surprised at the smallness of the damage. They discover that they merely have helped the bears.

When a man makes his play in a commodity market he must not permit himself set opinions. He must have an open mind and flexibility. It is not wise to disregard the message of the tape, no matter what your opinion of crop conditions or of the probable demand may be. I recall how I missed a big play just by trying to anticipate the starting signal. I felt so sure of conditions that I thought it was not necessary to wait for the line of least resistance to define itself. I even thought I might help it arrive, because it looked as if it merely needed a little assistance.

I was very bullish on cotton. It was hanging around twelve cents, running up and down within a moderate range. It was in one of those in-between places and I could see it. I knew I really ought to wait. But I got to thinking that if I gave it a little push it would go beyond the upper resistance point.

I bought 50 thousand bales. Sure enough, it moved up. And sure enough, as soon as I stopped buying it stopped going up. Then it began to settle back to where it was when I began buying it. I got out and it stopped going down. I thought I was now much nearer the starting signal, and presently I thought I'd start it myself again. I did. The same thing happened. I bid it up, only to see it go down when I stopped. I did this four or five times until I finally quit in disgust. It cost me about $200 thousand. I was done with it. It wasn't very long after that when it began to go up and never stopped till it got to a price that would have meant a killing for me—if I hadn't been in such a great hurry to start.

This experience has been the experience of so many traders so many times that I can give this rule: In a narrow market, when prices are not getting anywhere to speak of but move within a narrow range, there is no sense in trying to anticipate what the next big movement is going to be—up or down. The thing to do is to watch the market, read the tape to determine the limits of the get-nowhere prices, and make up your mind that you will not take an interest until the price breaks through the limit in either direction. A speculator must concern himself with making money

elli_c01.qxd 11/21/02 3:00 PM Page 38

out of the market and not with insisting that the tape must agree with him. Never argue with it or ask it for reasons or explanations. Stock-market post-mortems don't pay dividends.

Not so long ago I was with a party of friends. They got to talking wheat. Some of them were bullish and others bearish. Finally they asked me what I thought. . . . "If you are sure you wish to make money in wheat just you watch it. Wait. The moment it crosses $1.20 buy it and you will get a nice quick play in it!". . .

As I told you, I had watched it a long time. For months it sold between $1.10 and $1.20, getting nowhere in particular. Well, sir, one day it closed at above $1.19. I got ready for it. Sure enough the next day it opened at $1.20, and I bought. It went to $1.21, to $1.22, to $1.23, to $1.25, and I went with it.

Now I couldn't have told you at the time just what was going on. I didn't get any explanations about its behavior during the course of the limited fluctuations. I couldn't tell whether the breaking through the limit would be up through $1.20 or down through $1.10, though I suspected it would be up because there was not enough wheat in the world for a big break in prices.

As a matter of fact, it seems Europe had been buying quietly and a lot of traders had gone short of it at around $1.19. Owing to the European purchases and other causes, a lot of wheat had been taken out of the market, so that finally the big movement got started. The price went beyond the $1.20 mark. That was all the point I had and it was all I needed. I knew that when it crossed $1.20 it would be because the upward movement at last had gathered force to push it over the limit and something had to happen. In other words, by crossing $1.20 the line of least resistance of wheat prices was established. It was a different story then. . . .

What I have told you gives you the essence of my trading system as based on studying the tape. I merely learn the way prices are most probably going to move. I check up my own trading by additional tests, to determine the psychological moment. I do that by watching the way the price acts after I begin.

It is surprising how many experienced traders there are who look incredulous when I tell them that when I buy stocks for a rise I like to pay top prices and when I sell I must sell low or not at all. It would not be so difficult to make money if a trader always stuck to his speculative guns—that is, waited for the line of least resistance to define itself and began buying only when the tape said up or selling only when it said down. He should accumulate his line on the way up. Let him buy one-fifth of his full line. If that does not show him a profit he must not increase his holdings because he has obviously begun wrong; he is wrong temporarily and there is no profit in being wrong at any time. The same tape that said UP did not necessarily lie merely because it is now saying NOT YET.

elli_c01.qxd 11/21/02 3:00 PM Page 39

In cotton I was very successful in my trading for a long time. I had my theory about it and I absolutely lived up to it. Suppose I had decided that my line would be 40 to 50 thousand bales. Well, I would study the tape as I told you, watching for an opportunity either to buy or to sell. Suppose the line of least resistance indicated a bull movement. Well, I would buy 10 thousand bales. After I got through buying that, if the market went up 10 points over my initial purchase price, I would take on another 10 thousand bales. Same thing. Then, if I could get 20 points' profit, or one dollar a bale, I would buy 20 thousand more. That would give me my line—my basis for my trading. But if after buying the first 10 or 20 thousand bales, it showed me a loss, out I'd go. I was wrong. It might be I was only temporarily wrong. But as I have said before it doesn't pay to start wrong in anything.

What I accomplished by sticking to my system was that I always had a line of cotton in every real movement. In the course of accumulating my full line I might chip out 50 or 60 thousand dollars in these feeling-out plays of mine. This looks like a very expensive testing, but it wasn't. After the real movement started, how long would it take me to make up the 50 thousand dollars I had dropped in order to make sure that I began to load up at exactly the right time? No time at all! It always pays a man to be right at the right time.

As I think I also said before, this describes what I may call my system for placing my bets. It is simple arithmetic to prove that it is a wise thing to have the big bet down only when you win, and when you lose to lose only a small exploratory bet, as it were. If a man trades in the way I have described, he will always be in the profitable position of being able to cash in on the big bet. . . .

I sometimes think that speculation must be an unnatural sort of business, because I find that the average speculator has arrayed against him his own nature. The weaknesses that all men are prone to are fatal to success in speculation—usually those very weaknesses that make him likable to his fellows or that he himself particularly guards against in those other ventures of his where they are not nearly so dangerous as when he is trading in stocks or commodities.

The speculator's chief enemies are always boring from within. It is inseparable from human nature to hope and to fear. In speculation when the market goes against you you hope that every day will be the last day—and you lose more than you should had you not listened to hope—to the same ally that is so potent a success-bringer to empire builders and pioneers, big and little. And when the market goes your way you become fearful that the next day will take away your profit, and you get out—too soon. Fear keeps you from making as much money as you ought to. The successful trader has to fight these two deep-seated instincts. He has to reverse what you might call his natural impulses. Instead of hoping he must fear; instead of fearing he must hope. He must fear that his loss may develop into a much

elli_c01.qxd 11/21/02 3:00 PM Page 40

bigger loss, and hope that his profit may become a big profit. It is absolutely wrong to gamble in stocks the way the average man does.

I have been in the speculative game ever since I was 14. It is all I have ever done. I think I know what I am talking about. And the conclusion that I have reached after nearly 30 years of constant trading, both on a shoestring and with millions of dollars back of me, is this: A man may beat a stock or a group at a certain time, but no man living can beat the stock market! A man may make money out of individual deals in cotton or grain, but no man can beat the cotton market or the grain market. It's like the track. A man may beat a horse race, but he cannot beat horse racing.

If I knew how to make these statements stronger or more emphatic I certainly would. It does not make any difference what anybody says to the contrary. I know I am right in saying these are incontrovertible statements.

Jesse L. Livermore

DANA THOMAS

This vignette about the King of the Bears, Jesse Livermore, focuses on his early trading education and the development of his methods. Readers will quickly discover the genius of the man, and the combination of iron will, patience, and timing that characterized his operations.

Jesse L. Livermore began life humbly enough.

He was born on a farm in Shrewsbury, Massachusetts, and as soon as he got out of school, he obtained his first job marking the quotation prices for a display board in the Boston branch of the broker firm of Paine, Webber & Co. He was fast at figuring; he could add numbers, multiply and divide in his head without having to calculate on paper, and he would remember, down to the last fraction of a point, what such and such a stock had sold for in the previous trade. In watching the fluctuations of prices on the board day after day he came to develop a feel for price behavior. He became aware that the tape was a most powerful tool for analyzing the struggle taking place in the market. Instead of leaving the broker office when his work was done, he would stay for hours, jotting down the prices left standing on the board in a little memorandum book, studying the changes from the previous day's figures, searching for the repetitive patterns of market behavior.

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Shortly after joining Paine, Webber, Livermore began frequenting bucket shops during his lunch hour to try his hand at the play. America in the 1890s teemed with shops that were ready to part the trader from his cash. They were to the stock market what the bookie today is to the racetrack. The trader did not buy and sell the actual stocks traded in the market but bet on the prices as they were reported on the quote board of the shop. The customer gave his money to a clerk and told him what he wished to trade in. He could bet either way, long or short. If he bet long and the market went up, he cashed in accordingly. If he bet on the short side and the stock tumbled, he made money that way. When the market turned against him, however, and the price went beyond the limit set by his margin, the deal was automatically concluded and the trader was cleaned out.

Livermore began playing the bucket shops and found that he had been born for the life. With a quick head for figures and an uncanny ability to anticipate price fluctuations, he presented an unusual threat to the shop owners—a customer who consistently won. This was unheard of and could not be tolerated, for the bucket shop owner was ordinarily as certain of coming out ahead in the long run as the croupier in a gambling casino. The very nature of the betting operation normally assured that he couldn't be beaten. And the shops practiced a variety of tricks to guarantee their edge.

It was standard practice for a shop to hold back from reporting sudden fast price moves on the Stock Exchange floor. If U.S. Steel, for instance, was selling at 90 and took a sudden climb to 100, the shop wouldn't announce this on the board immediately. It would let the stock advance only to 96 on a fake quotation, in the hope that some of the traders would be suckered into selling short, expecting the price to swing down again. After a few trades had been made at 96, the shop then would announce the rest of the run-up to 100, and the players who had gone short at 96 would be cleaned out.

But despite such sharp practices, Livermore continued to win. Gossip travels fast through the gamblers' grapevine, and in virtually no time most of the houses on the circuit were warned about him. Whenever Livermore walked in and plunked down his money, the clerks would stare at it as if they were hypnotized by the eyes of a snake. No one would lift a finger to take it. Livermore tried every dodge to force shops into letting him play. He took a fictitious name and traded in out-of-the-way houses. To allay suspicion he even tried losing deliberately on small stakes in the hope the house would let him get involved in big enough ones to make a killing. As more and more houses shut their doors, he had to travel further and further afield to get any action. But even under these handicaps, Livermore continued to win.

He had one consuming ambition—to accumulate enough money to enter the stock market as something more than a piker trader. And the day finally came when he was able to swing a big enough line for significant

elli_c01.qxd 11/21/02 3:00 PM Page 42

operations. He discovered that playing the stock market required a different strategy from playing the bucket shops. In the shops one bet on fluctuations of a few points, knowing exactly what price one was getting when one bought and when one sold. But the market was a different kettle of fish. The time that elapsed between the order a trader gave to buy or sell at the market and the actual price at the time of sale could vary sufficiently enough to wipe out his stake. Livermore found that while he was right more often than not in anticipating where a stock was heading, he was not making as much money as he should have because he was following the age-old psychology of the conventional trader—snatching at immediate gains instead of letting his profits ride. He took a 5-point profit only to see his stock continue up 15 or 20 points. He came to realize that the hardest thing for a trader was to put his anxieties on a leash. The market did not outwit the trader. He outwitted himself. The man who could sit still for as long as necessary for the market to confirm the accuracy of his judgment was a rare breed. The most important thing was to establish position, to keep one's eye on the long swing.

Livermore learned to play with nerves of steel. He had no predilections on moral grounds about going long or selling short. Frequently when he sold out a stock as a bull he simultaneously went short on it; for he reasoned that if it was poor judgment to continue to be long on a stock, it made equally good sense to turn bearish on it. He geared himself to make a profit coming or going.

Like other successful plungers, he seemed to be possessed of a mystical prescience. He had an instinct for foreseeing events in a way he could not explain rationally. Rumors spread among his friends that he acted on subconscious impulses. There were times when he just had to put away his golf clubs and rush to his broker's office to make a sudden short sale. There were occasions when he went fishing on which he put down his rod and hurried back to land and the local broker house to wire a buying order. His moods were unpredictable. At times he would move like lightning in his trading; on other occasions he would wait for months, doing nothing whatever, lying on the beach on the Riviera, 3,000 miles from Wall Street. And then, inexplicably, he would leap into action. Livermore himself disclaimed any extrasensory perception. And yet, some curious sixth sense divining the future led to one odd episode.

Early in 1906, Livermore took a vacation in Atlantic City. One morning he strolled along the boardwalk and sauntered into a brokerage office to see how the market was doing. It was climbing briskly. The Dow-Jones average was up several points. He looked casually over the quotation board until his eye lit on Union Pacific. The railroad stock was one of the market's star performers—deemed to be practically as invulnerable as the Rock of Gibraltar. The news about the road was overwhelmingly bullish. Livermore picked up a pad and wrote out a message for the office manager. It was an order to sell

elli_c01.qxd 11/21/02 3:00 PM Page 43

a thousand shares of Union Pacific short. The manager emitted a nervous little laugh as if to say, "That was a slip of the pen, wasn't it, Mr. Livermore? You meant *buy* a thousand shares." Livermore had no conscious reason for selling Union Pacific short. He had heard nothing about the road that everyone else didn't know. Its earnings' prospects were rosy. Freight and passenger revenues were on the rise. Its capital position was strong. And yet, deep within him, there was the feeling that all was not well.

He picked up a second order blank and wrote out orders to sell another two thousand shares short. He went out for a bite of lunch. When he had finished his coffee, he returned to the broker office and glanced at the quote board. The price of Union Pacific had climbed higher since his last sale. He was heavily short on a climbing market; yet he was strangely untroubled. The next day Union Pacific backed off a little. Livermore sold two thousand more shares short. That night he cut short his vacation and returned to New York to be closer to the action.

The following morning news came over the wires that stunned the nation. *San Francisco had been hit by an earthquake.* It was one of the greatest disasters in history. Whole city blocks had been leveled; hotels, office buildings and homes collapsed like splintered matchsticks. City Hall was demolished. The Grand Opera House and the entire financial district were reduced to ashes. Soldiers were rushed to the city with bayonets to hold in check the mobs. Livermore had acted on an uncanny premonition of disaster, for which there was no obvious ready explanation.

However, a curious thing happened. When the news reached New York, the stock market remained strong, yielding only a few points at first and then rebounding. The bulls who had been accumulating massive holdings for months weren't going to be dislodged easily. Although Union Pacific had miles of track in the disaster area and was bound to suffer, the stock refused to go down. Livermore was short almost a half million dollars, and his associates were gloomy over his prospects. A cataclysmic blow of nature had been unable to shake the Union Pacific stock. They urged Livermore to cover and take his losses before they grew heavier. But he held on. The hunch that had impelled him to sell in the first place continued to possess him.

And, sure enough, on the following day, as the details of the earthquake poured into New York and the full scope of the disaster became evident, the market began to slide. At first it was a measured, orderly retreat without any indication of panic. Then, twenty-four hours later, the break that Livermore had been waiting for developed. For several days now traders had been sifting the news from San Francisco to ferret out its implications. And at last they reacted; the market's critical threshold of resistance was penetrated and broken. At first, prices fell slowly; then they picked up momentum. Finally, the panic was on. Livermore doubled his ante; he unleashed wave after wave of selling and on the following day he covered, making a quarter of a million dollars on the play. He had held his fire until the last possible moment. He had learned through years of bitter experience a lesson that only the most successful speculators really take to heart. It is the most difficult thing in the world for one to keep himself on a leash, when he knows he is absolutely right in his judgment, waiting for the big swing. It is only on the big swing that the big money is made, but the market all too often takes an unconscionable time to behave as the astute speculator knows it eventually must. In the meantime, the trader has to sweat it out.

From then on Livermore's career as a short seller gained momentum. He became a master manipulator of the subterranean depths of fear, exploring the psychic caverns of suppressed anxieties with a touch approaching that of genius. He turned into an expert at sensing the nature and scope of mass hysteria, the threshold levels at which different men begin to panic. Everyone has some level beyond which he loses control of himself. And Livermore became adept at manipulating the conditions necessary to bring his bull opponents to this point. Wrestling with one's adversary was frequently a long, sustained cold war of nerves. Livermore developed an infinite patience for waiting out the enemy, an infinite cunning for accepting reverses and turning them into opportunities, and the courage to wait without moving a hair until the time was ripe for a decisive strike.

Utilizing these talents, Livermore was able to make a second killing within a year after the San Francisco earthquake. In 1907 he had studied economic conditions carefully and come to the conclusion that the money outlook was far more critical than most people realized. Money rates were rising ominously all over the world. Unemployment was growing in the United States. Livermore concluded that the nation was heading for a recession and that the stock market was bound to react accordingly.

He went heavily short. At first, as in the case of Union Pacific the previous year, the stocks he sold short stayed strong; and once again his associates were skeptical about his judgment. But Livermore was certain he was right. He felt that the longer the market hesitated about going down, the more drastic the final break would be. He sat through rally after rally without turning a hair. And he continued to put out heavier and heavier short lines. In the meantime, money got scarcer and call rates rose. The market broke, and the tumble accelerated as Livermore and other bears unleashed waves of selling.

Morgan sent word through his emissaries to Livermore and the other top bears warning them to let up or take the responsibility for consequences no one could foresee. Livermore listened and was convinced. He had already raked in over $1 million on paper. He was realistic enough to know that if the market became any weaker, he might be unable to turn these paper profits into cash. And if the Exchange were forced to close, this would freeze his assets.

elli_c01.qxd 11/21/02 3:00 PM Page 45

So he agreed to let up on his pounding. Upon covering his lines, in one day alone—October 24, 1907—he took in over a quarter of a million dollars. And he never forgot—nor did Wall Street—that the market had been at his mercy and that of other big bears during its most critical hour. The bankers had been forced to come hat in hand to this onetime bucket shop trader because he had guessed right about the course of events against virtually the entire investment world.

Livermore emerged from the panic of 1907 a nationally known figure.

Joseph P. Kennedy

ROBERT CANTWELL and RICHARD J. WHALEN

Joseph P. Kennedy's skills and persistent striving enabled him to realize several ambitions: he established both a family fortune and a political dynasty. The first of these two pieces dates from 1937 and tells the Kennedy public story up to the time when his work for the New Deal was rewarded by appointment as U.S. Ambassador to the Court of St. James. The second is a brief snippet from a 1964 biography and reports on a revealing incident from young Joe Kennedy's Harvard years.

On the public career of Mr. Joseph Patrick Kennedy the curtain rose uncertainly at three o'clock on the afternoon of July 2, 1934, to the accompaniment of murmurs of discontent. . . . That day the ambiguous Mr. Kennedy, a highly successful Wall Street speculator, arrived to head a reform commission designed to curb Wall Street speculators like himself.

The off-stage muttering came from many sources. In the center of the stage with Joseph Kennedy (who had no idea of how big a show it was going to be) there was the keen, expressionless Mr. James Landis, one of the authors of the Securities Exchange Act and the man most frequently mentioned for the chairmanship. With him was the short, emotional Mr. Ferdinand Pecora, often mentioned for the same post, whose stock-market investigation had revealed, among other things, that Mr. Kennedy had made a killing in a large pool operation only a short time before. . . .

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elli_c01.qxd 11/21/02 3:00 PM Page 46

New Dealers scattered around Washington . . . looked on Kennedy's appointment as the final surrender of the New Deal to Wall Street's warmest embrace. These people knew that Mr. Kennedy had given $15,000 to the Democratic campaign fund, had lent $50,000 more, and they had heard that he had contributed another $100,000 indirectly. Almost to a man the New Dealers had tried to stop his appointment to the SEC, and there was a series of inspired, last minute, front page editorials, calling attention to Mr. Kennedy's record (which nobody had very straight). . . .

But if the heat, the protest, or the suspicions of his new colleagues fazed Joseph Kennedy at that first meeting, he did not show it. Pecora arrived a little late, frowning, and went into private conference with Landis, who was also looking glum. Mr. Kennedy waited with Commissioners Healy and Mathews. He had never met the commissioners until the day he became Chairman. He had never held a political job of any consequence. He was no reformer. Since the President had selected him for the Commission's five-year term, which was equivalent to presidential recommendation for the chairmanship, his election was reasonably certain; but Mr. Kennedy knew that a chairman without a majority was no chairman at all. Presently he limped four doors down the hall to join Pecora and Landis (he had fallen off a horse a few weeks before and broken his leg) and in about an hour they all emerged, smiling happily, to announce that Mr. Kennedy was Chairman, that Mr. Pecora would stay with the Commission, and that all was well. Joseph Kennedy had won over his first two critics. The next day he asked Landis, Cohen, and Corcoran to lunch. When they met in the inexpensive open-front Tally-Ho Tavern Coffee House, the ex-Wall Street speculator grinned as he shook hands with the authors of the bill designed to curb speculation, and asked them interestedly, "Why the hell do you fellows hate me?"

The curtain descended on the first act of Joseph Patrick Kennedy's public career some 15 months later when he resigned from the SEC. By that time it was generally considered the New Deal's most successful reform. Mr. Kennedy's opponents at the time it started—Landis, Pecora, Corcoran, Cohen, and the New Dealers by and large—had become his friends and partisans. . . .

When you think of Mr. Kennedy's career you think of a life that has been lived, not in terms of years, but of months, weeks, or even days. He was a bank examiner for 18 months and a bank president for three years. He was assistant general manager of Bethlehem Shipbuilding Corp.'s Fore River yards for 20 months, president of Film Booking Offices of America for two years and nine months, chairman of the board of Keith-Albee-Orpheum for five months, special adviser for First National Pictures for six weeks, reorganizer of Radio Corp. of America for two and a half months, a special adviser to Paramount Pictures for 74 days, and chairman of the Securities and Exchange Commission for the most consequential 431 days of his life.

elli_c01.qxd 11/21/02 3:00 PM Page 47

You cannot discuss Joseph Patrick Kennedy's career with any fullness unless you discuss the stories that have always swirled around him. They are a part of his personality, like his pungent language or his habit of working in his shirt sleeves. Ten years ago, when he was in Hollywood producing about 50 movies a year, Hollywood considered him a Boston banker. . . . About the same time Wall Street identified Joseph Kennedy as a Hollywood producer. And Boston—where he had grown up and been in several kinds of business for 12 years—placed him as the son-in-law of one of her many ex-mayors. When he went into the SEC his New Deal colleagues, as has been indicated, eyed him suspiciously as a Wall Street speculator, and when he went back to Wall Street he was regarded just as doubtfully as an emissary of the New Deal. . . .

Mr. Kennedy was born on September 6, 1888, on Meridian Street in East Boston, and lived during his boyhood on Webster Street, near the terminus of the narrow gauge that ran down to Lynn, near the piers, in a little section of moderate dwellings set back from streets with seafaring names—Liverpool Street, Bremen Street, Hamburg, and Havre. His father had been a state representative at 28, a state senator at 32, and went from politics into neighborhood banking, into a coal company, the wholesale liquor business, partnership in two East Boston saloons, eventually to become Boston's election commissioner and fire commissioner. He was a familiar figure in that strange, provincial, pre-war Boston political and financial world—the city of Brandeis and Charles Mellen, and of the great New Haven scandal, in the period when it was possible to be a national figure in Boston and yet remain unknown to the rest of the country. . . .

One of the main tendencies in Boston finance from 1910 to 1914 was the consolidation of small trust companies about the size of Columbia Trust. At the end of 1913 Columbia Trust was at the point of being taken over by the First Ward National. The Kennedys had a sentimental as well as financial interest in the bank, and by combining the assets of relatives, drawing on uncles for help, Joe got together $45,000 to buy stock in Columbia Trust, collected proxies around East Boston to keep control of it there, and was elected President by the Board of Directors. So he became a bank president at 25, widely publicized as the youngest in the country, just about the time Boston finance froze up tight and the Exchange closed for six months, at the outbreak of the war.

Joe had borrowed heavily to buy Columbia's stock, and his family had borrowed heavily to help him. He borrowed another $2,000 when he married Miss Rose Fitzgerald in October 1914, and made his down payment on a $6,500 house in Brookline. His bride had graduated from the Sacred Heart Convent in Boston, taken a postgraduate course at Aix-la-Chapelle, where she was a piano gold medalist. . . .

Joe's debts were crowding him hard and the Kennedy family grew rapidly—the first son was born in 1915, the second in 1917, followed by five girls and another son by 1928 and a youngest son in 1932—so that

elli_c01.qxd 11/21/02 3:00 PM Page 48

by the time Joe Junior was 10 there were seven children in the household. But before that time Joe had left Columbia Trust to become assistant general manager of Bethlehem's Fore River yards during the war, served on the Board of Trustees of the Massachusetts Electric Co., learned market operations in the investment banking house of Hayden, Stone after the war, and acquired an aptitude as a market operator that made him his fortune during the bull market.

He met Galen Stone in trying to persuade Stone (who was chairman of the board of Atlantic, Gulf & West Indies) to have his ships built by Bethlehem; he studied Stone's habits, took a seat next to him on the train, and while he could not interest Stone in ordering ships, he interested Stone in himself. As a result he was hired to head the stock department of Hayden, Stone's Boston office. About that same time something happened that steered Boston capital, especially small capital, toward the movies. In 1919 the president of a small trust company much like Kennedy's Columbia Trust backed a suburban retail merchant in producing a movie. It was *The Miracle Man*, and it grossed $3,000,000 on an investment of $120,000. In those days before Hollywood's unquestioned dominance, movies were still being produced on shoestrings in 13 U.S. cities, in enterprises that were more nearly akin to wildcat oil drilling than to modern large-scale production. The backer of *The Miracle Man* put his winnings into an effort to repeat, and when his company went under it was offered to Kennedy. He turned it down, but with a group of young Bostonians bought control of a chain of 31 small movie theatres scattered over New England and took a brief flier into production himself. But he was still dealing in thousands of dollars, and it was not until 1924 that he began to deal in millions. . . .

The first of [two features starring Gloria Swanson] was the ill-fated *Queen Kelly*, directed by Von Stroheim and never released. Kennedy had approved the script, and was in Palm Beach on vacation when Gloria Swanson called to tell him that difficulties had developed about the end of the picture. He had some $750,000 invested in it by that time, and it was still far from concluded. Kennedy hurried to Hollywood. There he saw unreeling a picture that he had not visualized from the script, opening with a scene of a priest administering the last sacrament to the madam of a bawdy-house, and including a vividly presented scene of the seduction of a convent girl. He thought of that appearing under "Joseph P. Kennedy Presents." Although he was no moralist, and although he recognized that Von Stroheim had done a beautiful job, it was too much for him. He spent another $100,000 trying to salvage it, asking Goldwyn and Irving Thalberg for advice, and hired Edmund Goulding on their recommendation. Still *Queen Kelly* would not end, and after he had sunk some $950,000 in it, he shelved it. He had wanted to get out of production. But rather than quit on a failure he made one more feature, *The Trespasser*, in which Gloria Swanson starred in Edmund Goulding's script. By the time it began breaking records at its opening, he was well enough satisfied to get out.

Kennedy moved so fast that opinions still differ as to whether he left a string of reorganized companies or a heap of wreckage behind him. When he left the movies after that drive he had a fortune of about $5,000,000 and was 32 pounds underweight. Losing 32 pounds still left him with 168. But for Kennedy, who works with whole-souled concentration at some periods, and relaxes as completely at others, and whose exercises are always strenuous, it was alarming. He went to the hospital. When he emerged the depression was at that point where no fortune promised security and where others besides Joseph Kennedy were wondering if a house in Palm Beach (which he had) was a refuge or a target. And relaxing at his Palm Beach house, or at his house in Bronxville, or at Cape Cod (where he stretched out in the sun on the porch while his personal stock ticker chattered out its bad news inside), he began belatedly to clarify his social views. He has expressed them tentatively in his campaign volume, *I'm for Roosevelt*, which contains, among other things, an observation that at the low point of the depression his friends were murmuring that if they were sure they could keep half of what they had, they would be content. That was his feeling: he had made his money to provide security for his children, and it was plain that there could be no security for them while the social system itself was in danger. By such steps Mr. Kennedy reasoned from the particular to the general. He could not disagree with the social objectives of many of the New Deal reforms, and if he criticized the way the laws were drafted, as he did, or the way they were administered, as he did also, he could criticize more effectively if he had the authority that came with work accomplished. So he was conditioned, in 1934, to go to Washington when the chairmanship of the SEC was offered him.

But in the realm of practical politics his progress was not so plain. When he traveled with the Roosevelt campaign train in 1932 he was rumored to be slated for Secretary of the Treasury; newspaper reports discussed his millions, and there were stories that he had won Hearst's support for Roosevelt. Moving so rapidly through so many fields, with friends and contacts in each, had left him in a position that was as influential as it was obscure: he was in circles as far apart as the movies in their pre-Legion-of-Decency days and the Catholic church; and as a devout Catholic, a friend of Cardinal Pacelli and of Father Coughlin, he occupied a special position among the early supporters of Roosevelt. To Louis McHenry Howe, as to the New Dealers in the SEC later on, Joseph Kennedy was a political and financial enigma, and no political appointments followed his work in the 1932 campaign. In the summer of 1933 he was again on Wall Street, active in a pool in the stock of Libbey-Owens-Ford Glass Co.—an episode that was to form the substance of the liberal criticism against him when he went into the SEC the next year. He had met Raymond Moley during the campaign, and in the period that Landis and Pecora were being discussed for chairmanship of the SEC, Moley was urging Kennedy's candidacy at the White House. . . .

elli_c01.qxd 11/21/02 3:00 PM Page 50

When Mr. Kennedy went into the SEC he had a very clear idea of when his own work would be finished. It would be when the capital market was restored. Other parts of the job—perfecting the internal organization of some 700 people, reassuring small investors by cleaning up the worst abuses, revising the complicated registration forms—were big tasks, but underlying them was the tremendous one of restoring the capital market. Unlike many of his New Deal colleagues, Kennedy did not regard the market as a mere barometer reflecting the condition of the country's business. He considered it the generator, which meant that he looked upon the issuing of new securities as the surest index of prosperity. And the thin trickle of new financing had almost entirely dried up. During the 17 months before March 1935, new issues, secured bonds and debentures, amounted to only $89,000,000. In January, for instance, there were no new issues of any consequence, and in February the total was only $1,875,000. The New Dealers had a name for this condition. They called it a strike of capital. Kennedy himself referred to it more tactfully as lack of confidence. The theory of the New Dealers was that the log jam in the capital market was artificial; as they saw it the big Wall Street underwriting houses were holding back because they believed that in so doing they would force the SEC to liberalize its restrictions.

So again Kennedy was playing a waiting game against a number of opponents—but this one ended sensationally. In February 1935, Swift & Co. opened negotiations with the SEC for listing a $43,000,000 bond issue. But the novelty of that issue lay in the fact that it was sold directly to the public by the firm of Salomon Bros. & Hutzler (afterward, it was said, boycotted into abandoning the practice), which handled the issue for a fraction of a point instead of the two or three point spread usually received by the bankers. According to Mr. Kennedy's New Deal audience, which by this time was watching him with enthusiasm tinged with awe, the Swift & Co. issue was not only new financing. It was a threat to the established spread. Whatever the reason, the log jam in the capital market broke immediately. In March new issues of secured bonds amounted to $97,000,000, or more than the total of secured bonds and debentures for the previous 17 months. In April the total was $82,000,000; in May it was $110,000,000; in June it was $151,000,000. By July the trickle of new financing had become a flood, and the total was $401,000,000; in August it was $193,000,000; in September, the month Mr. Kennedy resigned, it was $235,000,000; and by the end of the year it had added up to a grand total of $1,868,000,000. Mr. Kennedy had intended to resign in March, when the flood began. But as he was on his way to the White House with his resignation in his pocket, on March 27 (the day the Swift issue was released), he read the headlines announcing the Supreme Court decision on the NRA, and went back to work for another six months.

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elli_c01.qxd 11/21/02 3:00 PM Page 51

The gentleman from the *Boston Evening Transcript*, aware that he was covering an event of utmost importance to Proper Bostonians [the 1911 Harvard-Yale baseball game] . . . hurriedly scribbled the pregame story for page one of that afternoon's edition. The grandstand was filled well before two o'clock, and a large overflow crowd stood behind ropes in the outfield. The reporter estimated the attendance at 15 thousand persons. Also worthy of prominence in his story was the starting pitcher for Harvard: Captain Charles B. (Chick) McLaughlin, playing the last game of his brilliant career. . . . As McLaughlin warmed up, few spectators noticed the rangy, red-haired player who took a seat near the end of the Harvard bench. But his unexpected appearance in uniform drew curious stares from the players. He had failed to make the team that spring, had not appeared at other games, and, so far as anyone knew, wasn't a member of the squad. Yet there he sat. . . .

This minor mystery was forgotten as the game began. . . . The ninth inning opened with Harvard leading, 4–1. After retiring the first two Yale batters, McLaughlin turned to the umpire and asked for time. To the surprise of his teammates, he called the redhead from the bench and waved him to first base. The next Yale batter hit a grounder to the infield and was retired at first. As the Harvard team came off the field, McLaughlin, who had assured the last-minute first baseman of his coveted *H*, asked him for the game-winning ball. The substitute shook his head.

"I made the putout, didn't I?"

With that, Joe Kennedy stuck the ball in his pocket and walked away. . . .

About a year after the puzzling incident, a teammate asked McLaughlin why he had treated his sworn enemy so generously. Shamefacedly, McLaughlin said perhaps he had done the wrong thing. A few days before the game, he said, some friends of Joe's father had come to see him. They knew he intended to apply for a license to operate a movie theater when he was graduated from Harvard that June. If McLaughlin wanted the license, they clearly implied, he had better see that young Kennedy won his letter.

Said the former Harvard player to whom McLaughlin related the story: "Joe was the kind of guy who, if he wanted something bad enough, would get it, and he didn't much care how he got it. He'd run right over anybody."

elli_c01.qxd 11/21/02 3:00 PM Page 52

William O. Douglas

MAX LERNER

William O. Douglas distinguished himself as the third chairman of the Securities and Exchange Commission—and went on to long and fruitful service on the U.S. Supreme Court.

Like any body of men that makes prowess and luck its *summum bonum*, Wall Street personalizes the forces with which it has to deal. Since 1934, when the SEC was created to watch over men who manipulate other people's money, its chairmanship has, for the Street at least, ranked in interest beyond most Cabinet portfolios. The first chairman, Joe Kennedy, was definitely "one of ours"—a boy from the Wall Street slums who had somehow grown up in the financial Dead End without succumbing to its gangsterism, but who was nevertheless known and trusted by the big shots on the Street. His successor, Jim Landis, being a Harvard law professor, a former Frankfurter disciple, a drafter of the Securities Act, and seemingly a brash young man, aroused Wall Street fears at first, but soon managed to allay them. Now comes, as the new chairman, William O. Douglas. And Wall Street wants to know, in his own words, "what kind of a bird" he is.

Apparently the Street has some basis for its jitters about Douglas. His record thus far is that of the most uncompromising member who ever sat on the commission, and despite Joe Kennedy's belief in him and support of him, Wall Street fought his selection as chairman with every means it knew how to employ. Now, nervous over the stock-market slump, aware that the first two chairmanships of the SEC were merely preparatory and that this one is likely to be crucial, it wants to know how "safe" its new mentor is.

Whatever he is, whether radical or conservative, Bill Douglas is the West Coast brand. At 39 he has not lost the look of the Western college boy, lanky, sandy-haired, earnest, able, who has come East and made good. The first impression he makes is bucolic—a big fellow, very blond, with light eyebrows and childlike blue eyes—a slow-moving fellow, low-voiced and deliberate in speech—a simple sort of fellow, with slouching ways and carelessly chosen clothes. As you get to know him, however, you discard any notions you may have had of his being either bucolic or simple. He has one of the sharpest and deftest minds in Washington, a capacity for

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Excerpted from Max Lerner on William O. Douglas, *The Nation*, October 23, 1977, pp. 429–31. Reprinted by permission from *The Nation* magazine. © The Nation Company, L.P.

elli_c01.qxd 11/21/02 3:00 PM Page 53

handling people and a calculated skill in winning them over or shocking them, as occasion may require, a sense of strategy, and an air of quiet authority. You begin to see him tentatively as a man of immense native ability, who has fitted the standards of an American university training and the skills acquired in the world of law and finance into the ideals of the western lower-middle class.

Douglas's boyhood was nomadic in the best frontier tradition. His father, who was a home missionary, moved from one western small town to another. After the father's death, the family finally settled in 1903, when the boy was five, at Yakima, Washington. Yakima was a small town, with the narrow conservatism only a small town can show. . . .

High school was for Douglas an intellectual awakening, chiefly because of good teachers. They made dents in the armor of his conventionality. . . . At Whitman College, in Walla Walla, young Douglas majored in economics, but the principal impressions made on him came slantwise from unlikely sources—from an English professor who, apart from his subjects, was a great stirrer-up of young men, and from a professor of geology and physics whom Douglas considers the greatest teacher he has ever met and of whom he still speaks with fervor. As for books, Douglas was too busy working outside class hours to read any. One still gets from him the feeling of a man who has never had leisure and wouldn't know what to do with it. During the harvest season he went into the wheat fields with the casual laborers, mostly IWWs, and after work he sat around with the "wobblies" on sacks of wheat, while they talked of their experiences and their prowess and the dream of revolution. Curiously, Douglas seems completely untouched by their social doctrine. I have rarely seen a man regarded as a radical, even a western radical, who had less interest in labor or revolutionary doctrine.

How Douglas made the transition from all this to his present place has become by now a set of minor myths. He wanted to study law in the East, but he had no money. He taught Latin and English for a few years at the Yakima high school and coached the debating team, but most of what he saved he lost through an unlucky insurance venture. Finally in 1922 he set off desperately for New York. How he took charge of a herd of sheep as far as Montana, rode the rods the rest of the way into Chicago, and then spent his last dollar on railway fare to New York has been told several times. What has not been told is how miserable this western boy felt when he first encountered New York. He found none of the warmth of the West; he found only cold, reserved men, intent on success. He could get no work, failed to pay either his room rent or his tuition, and was put out of his dormitory room. He soon managed, however, to pick up about $600 by taking a correspondence-school textbook on commercial law and fitting each lesson out with an armory of actual cases, and it tided him over his difficulties. But the study of law still seemed to him heavy, dogmatic, and stultifying. He felt he

elli_c01.qxd 11/21/02 3:00 PM Page 54

had made a mistake to come East at all, but he stuck the year out. The last two years of law school were, however, transformed for him by the work on the relation between law and business that he did with Underhill Moore, whom he regards as the best teacher in the entire field of law.

For two years after graduating from law school, Douglas went out, like an anthropologist, into Wall Street to study the facts of law and life among the natives. He interviewed the high-powered lawyers in the financial district, right down the line. It was hard not to succumb to the magic of the power that surrounded them, and for a moment at least—so Douglas confesses now—he had a vision of becoming one of them. The firm he entered was Cravath, De Gersdorff, Swaine, and Wood, and what he found in his new work was something he had been entirely unprepared for. It was not so much law as corporation finance, intricate, subtle, compelling. He threw himself into its mysteries and how well he mastered them many a lawyer and broker has since ruefully acknowledged. . . .

A bright future beckoned Douglas if he stayed with the firm. The boom market of the twenties was in full swing, his contacts with the Exchange were numerous and intimate, his friends were all playing the market. But a single plunge, although it netted him a profit, proved enough for him. He never went in again; it was too much like rolling dice. Despite the temptations to stay in Wall Street, Douglas managed to build up a curious detachment about the whole business. Moore, who was a Veblen enthusiast, had introduced him to "Absentee Ownership," which made a deep impression on him, and evoked that mood of pitiless aloofness that gave Veblen's thought about business its strength and its stringency. He was even more impressed by Brandeis's "Other People's Money," phrases from which still keep cropping up in his speeches. So, in 1927, he left New York and went back to Yakima to hang out his shingle. He had a strong feeling for the western country and was sure his roots were there. But arriving at Yakima, he found he was one of 65 lawyers in a town of 20,000. After 10 days he came back to Columbia to teach and he has been teaching law ever since. Even now, as chairman of the SEC, he is on leave of absence from the Yale Law School.

Douglas came to the SEC in October 1934, as head of its investigation of protective committees, held hearings for 15 months, established a reputation as an unyielding and infrangible inquisitor, and was on the point of writing his report in January 1936, when Joe Kennedy resigned from the commission and Douglas was appointed to succeed him. . . .

Douglas has worked out a formula about the history of the commission which is tactful yet fairly true. Kennedy's chairmanship he sees as the period of consolidating the legislative victory of the Securities Act, when everything depended on good relations with Wall Street; Landis's chairmanship he sees as the period when the tools were sharpened with which

elli_c01.qxd 11/21/02 3:00 PM Page 55

the commission would have to work; but both periods took too long, he adds, and it is high time now that the commission got things done.

Whether he will be able to get anything done depends on a good many factors. He has to reckon with the fiercest potential opposition from the financial community that any government agency in Washington has encountered. He has, secondly, to do his work in the framework of Washington politics, both sacred and profane; that is, he has to deal with Morgenthau of the Treasury and Eccles of the Federal Reserve Board, as well as with Farley and Congress. Finally, he has in his own commission a still unknown quantity. . . .

Douglas believes that, given the passage of the three bills now before Congress, the commission would have ample legal power to achieve its purposes. As for the purposes themselves, he sees them as a pretty complete reconditioning of the financial structure of the country.

That will sound to most Wall Street men, and even to most liberals, sweepingly radical. But when stress is laid upon the word "reconditioning," it becomes clear that if his plans are radical, it is only in an ethical sense. Douglas is both ironically and genuinely honest when he calls himself "a conservative of the old school." What he is driving at is that, given a capitalist structure, there is nothing wrong with the conservative theory of finance. What is wrong is the wild and unscrupulous departure from that theory in actual practice. And he knows as well as anyone in the country what excesses that practice has involved. For years he conducted a bankruptcy clinic at Yale Law School. During his three years with the commission he has spent most of his time studying reorganizations. He has become a specialist in ruins, and as a result there has crept into his thinking the macabre moral note that you will find in most undertaking establishments. In fact, the reason his speeches have been so frightening to those high financiers who live by respectable crookedness is that he takes their professions at face value and demands that they be translated into action. And that involves, of course, not a new framework of ideals but a change in behavior.

The infuriating thing from Wall Street's standpoint is that Douglas has taken an impregnable position.

elli_c01.qxd 11/21/02 3:00 PM Page 56