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SEC Amendments

At the January meeting of the Board of Governors, Executive Director Fulton's report contained the following on the subject of possible work on amendments of the Securities Acts:

"It is hoped that during the current session of the Congress some steps can be taken to secure effective amendments to the various acts which are of interest to our members. As you know, the several organizations in the business have, in some instances, collateral interests and in others a diverse interest. The Heller Committee suggested that the securities business get together with the Commission in a broad over-all plan for revision of the Securities Acts. Our interest in recent years has been focused on Section 5 and related sections of the statute. Both the New York and American stock exchanges have interests peculiar to them. The investment companies have interests which are peculiar to them and which relate to Section 5."

There have been no recent meetings with the Commission nor with the other organizations of the business with respect to legislation. However, the financial community desires to work together on these problems.

"It should be noted," Mr. Fulton added, "that comprehensive amendments of the nature discussed in 1940 and 1941 will almost certainly not result in enactment of a bill by a Congress which hopes to adjourn by July 1. This raises a question as to what items should be considered most important for first enactment."

"Free-Riding"

The Board of Governors, at a meeting in January, approved a report covering disciplinary actions taken by the District Business Conduct Committees against members who were found to have violated the Rules of Fair Practice in the public offering early last year of Owens-Corning Fiberglas common stock.

In all, these Committees filed 45 complaints. These complaints were based upon alleged so-called "free-riding" on the part of these members in that they retained

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Don't Put It Off!

Members who, in their own community, have talked about sponsoring educational programs but have experienced a sense of frustration about where to begin and what to do, can put such uncertainties to rest. A proven method of getting such programs under way is available and the whole bag of tricks can be obtained by applying for same from the Executive Office of the Association.

Included in the material available are references which have been successfully used; detailed outlines of subjects to be discussed at classes or meetings; tips on what to do and what not to do and a wealth of other information and guides that, as we have said, have stood the test of trial.

You don't have to be a teacher or a trained speaker and you don't even have to be an expert on the whole subject of investing. All you need is the will to do your part. You'd be surprised how many others in the business in your own community are as willing to get into the act if someone will give them a nudge.

Don't put this thing off again! Simply write for "Educational Material" to: Executive Director, National Association of Securities Dealers, Inc., 1625 K Street, N.W., Washington 6, D. C.

What do you wannaknow

If you want a primer on NASD, it can be had. "What You Should Know About the NASD" is the name of a booklet that has the answers to most questions—in capsule form. Write to the Executive Office for your copy—and a supply for your salesmen, traders, cashiers, etc., is available at cost. That "etc.," by the way, doesn't exclude partners and vice presidents. They've been known to do a piece of business now and then and ought to know the rules like everybody else.

Cook's Tour

The annual dinner of the New York Security Dealers Association is an occasion when, traditionally, everybody smiles at everybody else and no one knocks anything more animate than a washroom door.

Chairman Donald C. Cook of the SEC was the guest of honor at this year's dinner and did himself proud as an observer of the affair's tradition. He patted the NYSDA on the back and, speaking of what he called the "powerful position" NASD occupies today, Mr. Cook several times paid his respects to the record the business has made in self-regulation.

"My years as a federal regulator," he said at one point, "have taught me the value of a substantial amount of self-regulation in this industry. This experience has shown that it takes something more than government regulation to achieve an all-around regulatory job. A government necessarily deals in the enforcement of legal standards. But you are concerned with the more advanced ethical standards. Indeed, without imposing a stifling rigidity, government regulation alone simply could not accomplish the objective of maintaining high business standards which we all recognize as necessary."

He handed the over-the-counter market some kudos, too, stating it to be his opinion that "the gigantic industrial growth our nation has enjoyed over the past two decades would have been utterly impossible without these markets."

Striking no preacher-pose, he offered a word or two of caution, too.

"The high legal and ethical standards prevailing in the securities field today," he warned, "can be perpetuated only by the same constant attention and vigilance that produced them. Both government and industry regulatory bodies must remain always on the alert to prevent deterioration in these standards."

Thanks for the encouragement and advice, Mr. Chairman, and may your successors and their fellow commissioners hearken to your words and be disposed as favorably.

Cole Facts

Charles A. Cole of the Securities and Exchange Commission is one of the few real authorities on the breadth and depth of the over-the-counter market. He's been keeping tabs on hundreds of issues on which markets, stockholder figures and the like are available.

Cole's latest compilation of a broad representation of over-the-counter stocks shows that their aggregate market value in December, 1952, was "somewhat in excess" of \$10,000,000,000, "or about \$3 billion in excess of a similar computation made in 1947." Embraced in his study were 1,700 issues of 1,350 companies reporting 300 or more holders of at least one of their stock issues.

"About 200 of the 1,700 stock issues had over \$10,000,000 market value each, aggregating nearly \$6,000,000,000, with over 546,000 reported holders, assuming no duplication of holders," says Cole in his report.

About 20% of the 1,350 companies had less than \$3,000,000 assets, he adds.

The five "leading" over-the-counter issues, from the standpoint of market value, he lists as follows: Weyerhaeuser Timber Co. (\$437,500,000); M. A. Hanna Co. ("A" and "B", \$250,000,000); Olin Industries (\$196,800,000); Anheuser-Busch (\$105,000,000), Delhi Oil (\$101,000,000).

A "Sleeper"

Earl Waterman of Seattle, Chairman of the Education Committee, has had a lot of experience the past few years with programs of investment education. He and his confreres in Seattle sponsored very successful courses in this field through the adult education program of the public schools there.

One of his most interesting experiences, Earl related, helps answer the question of how fruitful are such educational programs:

"There was this friend of mine," Earl said, "—a man I had gone to school with, who made a lot of money in the lumber business—who called me up when the announcement appeared in the paper of the investment courses being offered. I play golf with him. I had not tried to solicit business from him.

"During our conversation on the 'phone I found he had not been doing much investing. He asked me: 'Where do I register for this?'"—[an educational course].

Earl went on to say that he told his friend "it's going to be very elementary." His friend answered: "I have finally come to the conclusion that is where I had better start."

The man and his wife both registered for the investment courses and attended all lectures.

The story shows that people we in the investment business might think of as "sophisticated", actually are looking for help but don't know how to go about getting it.

Beg Pardon!

Just as the best cashier in the world will occasionally tap a "3" on his adding machine when he was reaching for a "2", a guy in this news business can be expected, much oftener than our cashier friend, to get mixed up in his typewriter keys.

An issue or two back, the "NEWS" fell in too readily with the jargon of the street in referring to a most important branch of the business as "back office." The connotation wafted by the term isn't sweet, apparently, and several of our readers took us to task for what they feel is a very out-moded name for the departments that really keep things from snafuing, but good.

"Some of us are partners and even vice-presidents"—would sum up the complaints registered by those who think "back office" isn't dignified.

So, apologies to those who were offended by our use of the term "back office" to identify their bailiwick. Hell of it is, we don't know what to use in its stead!

Quotable Quote

H. P. ("Slim") Schlemmer is San Francisco's Governor on the NASD Board. One of his assignments has been to speak up for the dealers retailing investment company securities, underwriters and distributors having their own spokesmen.

"Slim" is big enough to put on a bull-in-a-china-shop act, but he deports himself much more sedately—and constructively. At the last Board meeting, he had this to say for his constituency in the mutual fund business:

"We have in this Association a substantial percentage of small firms—one or two men—which derive their primary income from trusts [investment companies] and that means that we, as an Association, should work with the dealers and know their wants and see that we protect them and help them."

It isn't to be deduced that every specialized activity in the business throws its weight around in NASD affairs. But when policy decisions are being made, the interest of every affected group has a right to be presented.

Rhubarb Dept.

Editor, NASD NEWS: What a wind-bag you are! Do I pay dues to that outfit for the privilege of reading that guff you write?

E. C. G.
Chicago

Editor, NASD NEWS: I was more than usually impressed with the latest copy . . . an excellent job was done in presenting, in an interesting and readable way, the various activities of the Association.

H. Warren ("RED") Wilson
New York

Editor, NASD NEWS: Latest issue was excellent. You're doing a fine job—your stuff's readable.

G. L. L.
Boston

NASD: Let me congratulate your public and member relations committee. I think they did a fine job in presenting this outline material [for speeches].

L. O. Birchard,
Cleveland

NASD: My only comment is to thank you kindly for the fine cooperation which you extended.

L. L. R.
Boston

NASD: We will be quite anxious to hear any future ideas which the Association might have on speeches.

John W. Turner
Dallas

NASD: I am of the opinion that we should encourage our registered representatives throughout the industry to take full advantage of their contacts and opportunities to make talks and speeches before various public groups. It's inexpensive and most effective.

D. J. Cullen
San Francisco

NASD: The NASD is doing a great job—keep it up!

E. J. K.
Jackson, Miss.

(Correspondent E. J. K. must have got infected with the spirit of Brotherhood Week. Nice to have you aboard, Brother).

NASD News

Published periodically by the Board of Governors under the supervision of the Member Relations Committee,

HARPER JOY, *Chairman*
Editor, JAMES P. CONWAY

Swan Songs

Election to the Board of Governors is for a three-year term. Each year seven "goves" retire, seven come on.

A tradition has grown up which calls upon the retiring men to sing a bit of a swan song by way of a farewell to their fellow Governors and by way of a salute to the freshmen.

At the January, 1953, meeting of the Board, the retirees were: Clarence A. Bickel of Milwaukee; Ewing T. Boles of Columbus; Charles P. Cooley of Hartford; W. Fenton Johnston of New York; Harper Joy of Spokane; Ira D. Owen of Minneapolis, and Albert W. Tweedy, Boston.

Here are a few excerpts from their spontaneous remarks at the meeting:



Bickel: I think what happened when the SEC last year set out to impose fees on brokers and dealers is probably the best illustration of the machinery that can be set in motion through the Association to do a job quickly when a job

has to be done . . . think of the position we as dealers would have been in had we had no place to turn . . . no one would know who our spokesman was going to be and we would go in different directions . . . The new Board is going to have a chance to work with other groups to try to do a constructive job on legislation . . . I have had occasion to work very closely with our staff. I don't know how we could function in our own shop at home if we had a completely new set of partners every year or every three years—new bosses coming and going—and if they had a meeting every three or four months, took a lot of action, and then all went home and left me to carry on for the next three months . . . I don't envy Wally Fulton the position he is in. I have worked with him intimately this past year. I have the highest regard for the job he does . . . and he has a fine staff in John Lindsey, Don Burns, Ray Moulden and our public relations adviser, Jim Conway . . .

"FREE-RIDING" (cont'd from P. 1)

their participations in the underwriting or in one manner or another failed to make a bona fide public offering.

Majority of the Committees imposed penalties of censure, coupled with a requirement that the member file a letter of future compliance with the Rules of Fair Practice.

A number of firms, against whom com-



Boles: Charles Darwin in "The Origin of the Species" looked a million years ahead and saw a gloomy picture at the end of that term—the extermination of the human race by reason of starvation . . . Our membership can look ahead

three years and be pretty optimistic about NASD affairs because of the caliber of the men who will be responsible for those affairs in those years ahead . . . They will do a good job and I am sure will have a very rich experience . . . I hope the new class will enjoy their experiences as much as I have . . .



Cooley: At my first meeting I heard Jerry Bryce render his version of a swan song and I am reminded of it as I try to think of something worth-while to say to the new Governors . . . Jerry said he supposed everybody came on the NASD

Board as he did originally—his hair up, breathing fire and brimstone, and thinking he was going to remake the NASD and the SEC and the rest of this regulation business . . . Well, I came on that way and you probably felt as I did, no doubt, that one of the things you would like to do would be to get the NASD out of your hair and the SEC off the back of your necks . . . But, as I spent these three years and received instructions from the rest of my contemporaries and have observed some of the battles waged—won, lost, and otherwise—I think a good many of the rough edges have been taken off . . . At any rate, I have learned that the SEC certainly performs one of the greatest functions that our industry requires . . . The progress of NASD has run true . . . I think that this progress over the years has been due to the efforts of the Board, District Committees and the members, too, but particularly it can be traced to the work of the staff.

plaints were not filed received letters of caution against practices which, while not violative of the Rules, were subject to criticism.

(Members are referred to the July and November, 1952, issues of the NEWS for background and official statements respecting the subject of "free-riding".)



Johnston: Nobody can be on this Board for a period of three years and not get a lot of benefit out of it . . . I would like to stress the opportunity that this Board will have—as will succeeding Boards—to accomplish changes, perhaps, in the Securities Acts . . . I think we have a very strong situation. I hope it continues . . . I wish you the best of luck. I am sorry to part company . . .



Joy: When I was happy and carefree and brainless, in the long ago, I tramped up and down the highways and byways of this country in show business. I am not like Fenton Johnston who is a man of great diligence and with a tremendous sense of duty to his firm . . .

I am one of those who has not missed a meeting . . . If, by some accident, I have done anything to further the NASD, I certainly am very happy. You can't spend three years on this Board without leaving it with a tremendous appreciation of the people who work for our Association and of the men who give it their time out of their own business life . . . To the new Governors, I only want to give this one bit of advice. I read coming East on the train the autobiography of Joe Jefferson of "Rip Van Winkle" fame . . . In it there is one line that I would give to all new Governors. It is: "One seldom regrets silence on any subject." . . . God bless you all . . .



Owen: Serving on this Board affords you the opportunity of having a part in, and seeing what the NASD is doing, what it has done and then, also, to realize what the potential for it is . . . In spite of all that Harper Joy has done, our membership still doesn't realize what makes this organization go . . . maybe we should hook up a television closed-line deal for them . . . I am very glad that Harold Wood is my successor on this Board . . . I want to say to Harold that I will envy him the work he will be doing the next three years. (continued)



Twoedy: The thing above all else that has impressed me about what the Board is trying to do is that it is trying to lead the troops . . . An army cannot get ahead any faster than the troops . . . In our class of 1953 we have the inimitable

Harper Joy and we have Mr. Ewing Boles who has now been made President of the IBA and is here, nonetheless, as a member of the Board of Governors . . . I would also like to say a word about Harry Prankard as head of the Investment Companies Committee. I don't know anybody in the Association who has given more time and effort to it and who has taken more criticism, unkind criticism, from people in the business than he and I would like to pay my respects to him . . .

As long as the Association can attract men of the disposition of those quoted above and men who do their own thinking but are guided by the best interests of the business and the public—NASD is going to get along all right.

Special Deals Out

Information at hand indicates that some 16 States, including several in which nearly all investment companies market their shares, have adopted, effective as of January 1, 1953, a series of directives sponsored by state "blue sky" commissioners governing the sale of mutual fund shares and certain management practices.

Perhaps most important to dealers who are out on the line selling fund shares are prohibitions against:

(1) Any "special deals" or discounts by sponsors from the public offering price which are not alike for all dealers (including any increased concessions for sales in large volume, and special bonuses or concessions — whether in cash or merchandise — any special advertising or displays, and any extra concessions by any wholesaler or other representative of the sponsor);

(2) Reciprocal "give-ups" to brokers and dealers on unlisted or over-the-counter business (but not against participation by brokers and dealers in profits or commissions on orders executed with or for the investment company by another broker or dealer that involve listed, registered securities as to which the profit is fixed by the prospectus or the rules of an exchange);

(3) Announcement of declaration or intent to declare any distribution or option to reinvest such distributions more than 15 days before the ex-dividend date, and advertising in sales literature of realized or unrealized appreciation or undeclared accumulated undistributed current net income, except within 15 days prior to the ex-date or after the distribution has been made;

(4) Informing any dealer or broker not concerned in the execution of the transactions (orally or in writing) of any proposed changes in investment company portfolios (this does not affect portfolio changes shown in quarterly reports).

The directives have been substantially modified to meet investment company industry objection following their original proposal last year by the Investment Companies Committee of the National Association of (State) Securities Administrators. Effectiveness of the controls depends on the several States declaring that they will not permit the sale of shares in their States of any investment company which does not live up to the requirements in all 48 states. And, since the "special deals" ban calls for a prospectus statement that concessions are alike to all dealers, mutual funds that do not amend their prospectuses presumably would be outlawed in any of the States that so far have adopted the directives.

States known to have signified their intention to enforce the directives as to all investment company shares sold under their jurisdiction (and that means that funds whose shares are sold in those States must have made the directives effective in all states) are: Alabama, Arkansas, Illinois, Kentucky, Maine, Michigan, Minnesota, Missouri, North Dakota, Nebraska, New Hampshire, Ohio, Oklahoma, Oregon, West Virginia and Wisconsin.

Part-Timers

If you're thinking of hiring part-time salesmen the advice of the Board of Governors is that you take this step with no less care than if you were hiring a full-time salesman.

A Committee of the Board looked into the subject of part-time salesmen and, while it could not come up with any hard and fast rules or suggestions to pass on to members, it, nevertheless, concluded that a part-timer could produce more headaches than business unless the member were on the ball.

There's nothing wrong, per se, with hiring part-time people but the Committee said, and the Board agreed: "Great care should be exercised in selection, the

individual should be well-trained before coming in contact with the public and, lastly, his work should be carefully supervised."

Because a guy happens to be a darn good butcher (a few are selling securities in their spare time) or insurance salesman, doesn't automatically qualify him as an informed judge of securities.

Heller

A subcommittee of the House Interstate and Foreign Commerce Committee has issued a report of hearings it conducted in 1952 on the Securities and Exchange Commission and the acts it administers.

The subcommittee was chairmanned by Rep. Louis B. Heller of New York. Of interest to the NASD membership are the following proposals:

1. A further study of SEC functions;
2. A more exhaustive review of the work of SEC regional offices, since examination and inspection of broker/dealers is largely done through them;
3. That SEC either promulgate rules relating to "stabilization" or propose legislation on it to Congress;
4. That SEC reactivate conferences with the securities business aimed at proposals to Congress for amendments to the Securities Acts.

On the subject of the SEC's collecting charges and fees, the report said: ". . . such charges and fees should be fixed in specific legislation passed by the Congress, rather than through any delegation of authority to any agency to pass upon the need for, or the amount thereof."

That was the NASD position, it might be added.

A "Grand"

A District Committee has been backed up by the Board of Governors in a case where the former slapped a fine of \$1,000 on a member and suspended him for two weeks.

This member didn't think of the 5% policy as a guide or criteria. To him it was a spring-board. On some low-priced stocks he took to soaring as high as a 20% mark-up—on so-called "riskless" transactions where he had the order before he bought the stock.

They aren't new, but the District Committee had some things to say worthy of repeating: ". . . a dealer in securities . . . represents that he will deal with the public and customers fairly . . . To buy or sell securities at prices which bear no reasonable relationship to current market price is . . . unfair and perhaps fraudulent."