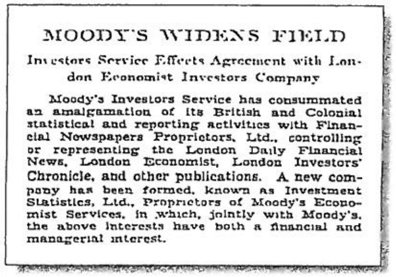
BUSINESS WHEELS KEEP TURNING IN 1929

Indeed, things did go well for Moody's Investors Service over the next year. Revenues were continuing their steady rise, reaching $1.7 million in 1928 and even higher levels in 1929. According to the firm's annual report that year, Moody's employees then included "over 200 trained experts, editors, economists, statisticians, compilers, correspondents, and other workers." Further, Moody recalled that Dan Shea was "stirring us all up with plans for a new Personal Management and Bank Supervisory Service." Sherman Porter was getting under way the new Weekly Manual Supplementary Service (which justified an increase in the price of the Manuals to $30 a volume). And Bob Watt was building up what Moody termed "a real Sales Department" for the first time in the firm's history.



MOODY'S WIDENS FIELD

Investors Service Effects Agreement with London Economist Investors Company

Moody's Investors Service has consummated an amalgamation of its British and Colonial statistical and reporting activities with Financial Newspapers Proprietors, Ltd., controlling or representing the London Daily Financial News, London Economist, London Investors' Chronicle, and other publications. A new company has been formed, known as Investment Statistics, Ltd., Proprietors of Moody's Economist Services, in which, jointly with Moody's, the above interests have both a financial and managerial interest.

The Wall Street Journal, September 27, 1929

When Moody realized in the summer of 1929 that "all Europe was buying stocks in Wall Street," he was quite sure the stock market boom would not break for another year. Shortly thereafter, he again sailed for Europe.

In London, on September 26, 1929, Moody concluded a deal that brought about an "amalgamation" of Moody's British and Colonial statistical and reporting activities with Financial Newspapers Proprietors, Ltd., the holding company that controlled the *London Economist*, among other financial publications in the United Kingdom. Unfortunately, little or nothing came of that promising alliance, which was entered into only a month before the Stock Market Crash of October 1929.

CHAPTER FIVE

A LONG, DIFFICULT CLIMB

Surviving the Depression and World War II (1929–1961)

Overleaf: Bankrupt investor Walter Thornton tries to sell his luxury roadster for $100 cash on the streets of New York City following the 1929 stock market crash.

OVER THE YEARS, Moody could claim many prescient market calls to his credit, but he and his chief economist Paul Clay missed the 1929 Crash entirely, and long after that Moody's continued to advise investors of a "buying opportunity."

The same sense of optimism that was so important in the founding of Moody's Investors Service seems to have blocked his view of the impending dangers. As early as 1922, in a bylined article in the September issue of the *American Magazine* titled "Why I Think the Stage is Set for a Constructive Period in Business," Moody augured a secular upswing for the U.S. economy, pointing mainly to improvements in technology that would be harnessed by American industriousness. "This constructive period is not going to be without its ups and downs," he cautioned. "But I believe we are entering a long upward curve in the cycle; for business always moves in cycles. This one probably will last twenty or thirty years."

At the very end of 1928, Moody was preaching his vision of economic expansion with the same sense of confidence in the American future. He had attracted wide attention in and out of financial circles, according to an article in the *Chicago Tribune* December 27, 1928, when he declared that the next few years would bring "the greatest boom in the history of the country, without precedent in its wide, general distribution of prosperity." Some "minor adjustments" are needed, he said, "but there is no chance of a repetition of 1907 and 1920–21." Among the reasons for his bullish forecast, Moody cited "an increase in American wealth of about $20 billion a year, an increase in annual savings of $10.5 billion, and foreign security holdings of $15 billion."

On October 28, 1929, the day before Wall Street's biggest stock sell-off on "Black Tuesday," *Moody's Weekly Letter* had this to say about the severity of liquidation during the previous week: "We are convinced that it represents nothing more or less than a speculator's frenzy of fear for the time being—in other words, a technical condition of the market rather than a reflection of radically changing underlying conditions, which, in point of fact, remain stable. The important thing to note in a time such as this is that it is a rapidly moving phase and something that will cure itself with relative speed."

The New York Times, December 4, 1928

MOODY FORECASTS GAIN IN BUSINESS

Says Next Few Years to Be the Greatest Ever

NEW YORK, Dec. 4.—John Moody, president of Moody's Investors Service, after calling attention to the fact that corporation earnings are growing at twice the pre-war rate and are likely this year to surpass the previous high record of all history by about 6 per cent., and that the greatest boom since the war may be expected after several readjustments, summarizes the business as follows: … years should present … larger profits … the

Moody could claim many prescient market calls to his credit, but he and his chief economist Paul Clay missed the 1929 Crash entirely.

A month later, this sense of optimism remained intact. In the weekly letter for November 25, 1929, Moody's advised that "The average stock-market investor would do well at present to occupy the position of an 'unofficial observer' until prices again reach more attractive levels and stocks can be bought for the long pull with every reasonable assumption that they are bargains, regardless of the extent to which the business recession can logically go."

A week or so later, Moody was interviewed by syndicated columnist John F. Sinclair for an article that ran in the *New York World*, November 15. According to Sinclair, Moody attributed the crash to "persistent pyramiding far beyond values of dozens of the market leaders at the time," and he predicted that "Before the year 1930 closes a definite upward trend in business will be witnessed." Moody again argued that there had been no fundamental change in the general situation, that the speculative mania which caused the crash affected no more than five percent of the overall population, and that "human nature is infinitely more prone to be hopeful and cheerful than it is to be depressed."

MOODY LAYS CRASH TO EXCESS VALUES

Blames Persistent Pyramiding During Credit Strain

"WILL AFFECT BUSINESS"

But Analyst Expects Upward Trend Before 1930

By John F. Sinclair

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"Persistent pyramiding far beyond the values of dozens of the market leaders at a time when the credit strain had been continuously aggravated by the rapid formation of holding and trading companies of immense capitalization."

Such is the explanation of the stock market smash given by John Moody, well known business analyst, whose

The New York World, November 15, 1929

Moody Sees Big Bond Year

From The Wall Street Journal Chicago Bureau

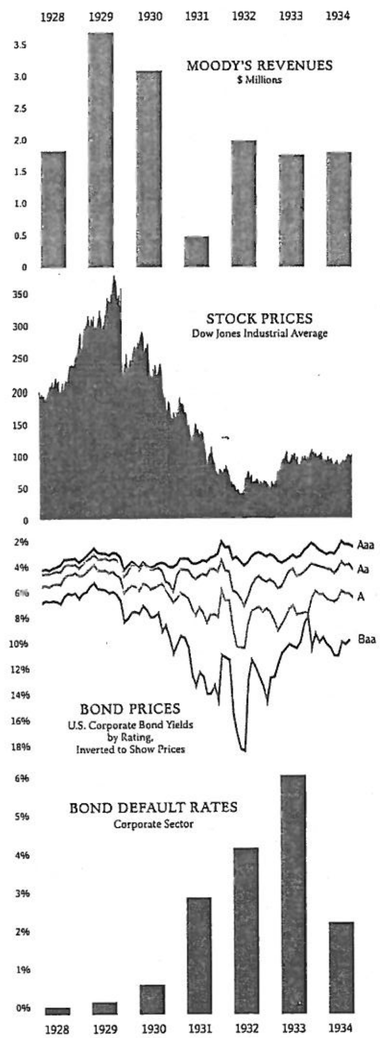
CHICAGO—"During 1930 I expect the bond business to show a definite upward trend and to have one of its best years," said John Moody before Bondmen's Association here

The Wall Street Journal, November 13, 1929

Adding insult to the injury this inflicted on Moody's reputation as a market observer, Roger Babson has since become known for being among the first to predict the 1929 Crash and ensuing depression. Babson made those predictions using his "Babsonchart," which purportedly applied Isaac Newton's theory of "actions and reactions" to economic forecasting.

RADICAL COST CUTTING

Because the stock market collapse came late in the year, Moody's revenues nearly doubled in 1929, rising to over $3.6 million. They still exceeded $3 million in 1930.



MOODY'S REVENUES AFTER THE CRASH

MOODY'S ANNUAL REVENUES sky-rocketed along with stock prices to over $3.7 million in 1929.

Revenues remained high for a year after the October 1929 Crash. They then fell sharply in 1931, as stock prices continued to slide and prices of bonds rated below Aaa and Aa plunged.

As securities prices failed to hit bottom and a cascade of bond defaults spread fear of further losses, investor demand for Moody's ratings and services grew.

That helped Moody's revenues to snap back to pre-Crash levels in 1932.

Thanks mainly to a renewed emphasis on Moody's investment advisory and counseling services, revenues would remain around the $2 million level over the next decade, before turning upward again after World War II.

But in 1931, revenues plummeted below $500,000, and they would not reach 1929 levels again for another quarter of a century—through what Moody later termed a "long and difficult climb that led us out of the woods and back on solid ground."

On a bright note, the firm's annual revenues did bounce back to the two-million-dollar range in 1932, which was above their levels in 1928; but they would remain around that level each year through the Depression and World War II. In the early years of that difficult period, according to Moody, the company was saved not by any increase in the volume of business, but by radical cost cutting.

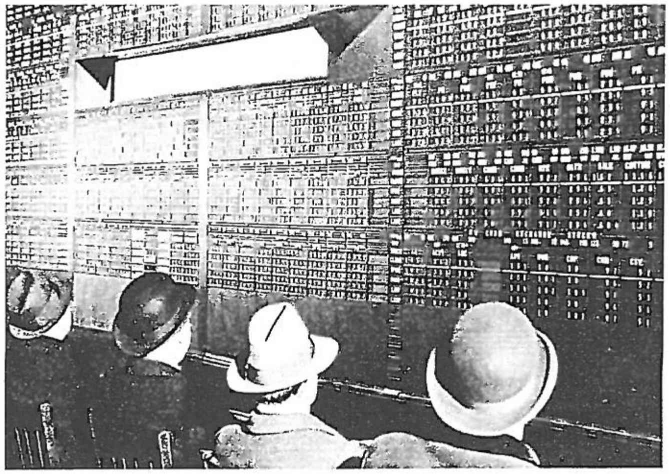
Moody's continued on at 65 Broadway, but late in 1930 and to a further extent in 1931 and 1932, the firm slashed its payroll, cutting salaries 20 percent or more and reducing its staff wherever possible. Moody recalled that, "Everybody made sacrifices, especially the Management, who were substantial stockholders with real money invested in the business. No dividends on the common stock were in sight for years thereafter."

By 1935, it did begin to appear that better times were looming. In 1936 and 1937 the firm was able to pay up its four lapsed dividends on the preference stock and to pay out moderate dividends on the common stock (50 cents in 1937 and $1.25 each in 1938 and 1939).

In 1940, at the instigation of Don McCruden (who, said Moody, "had long been evolving into our star printing plant worrier"), Moody's switched printers, thereby saving "real money" and solving distressing problems in bringing out the manuals.

Donald B. McCruden was president and chief executive officer of Moody's from 1956 through 1961. He joined the firm in 1922 and served thereafter in various editorial and business capacities, including treasurer and publisher.

As war for America loomed again, Moody's faced many challenges, including a labor union threat. "But we strode safely through it all," Moody wrote in 1949, due largely to continued efforts to control expenses through further cuts in the salaries of Moody and other managers, as well as passing on common stock dividends. "What success we have achieved," Moody concluded, "has been primarily due to the courage, loyalty, and industry of the entire management."



"Following the panic of 1929, people with money turned more seriously to investing as contrasted with speculating or gambling."

DEPRESSION'S SILVER LINING

Looking back on the same period, many of those courageous managers had a different, but no less positive, story to tell. In the first of a series of articles that appeared in the *Christian Science Monitor* in December 1957 ("Moody's Seeks to Provide Integrated Service to Investors"), McCruden, then Moody's president, wrote that for Moody's "there was a silver lining in the clouds of the depression."

"Following the panic of 1929," McCruden explained, "people with money turned more seriously to investing as contrasted with speculating or gambling. They buckled down to investment programs of conserving what they had, developing a satisfactory income and planning for longer term profits. Increasingly, they turned toward advisors like ourselves to find the kind of help and guidance they needed.

"In 1930 our Investment Management Services took shape, and by the mid-1930s we were working for a larger number of individuals and many institutions, especially banks, through the medium of these highly personalized advisory and consulting facilities. This part of our business has grown rapidly, and today it is the largest single contributor to gross revenues."

Not all of Moody's competitors fared as well. Hit hard by the 1929 Crash, Poor's Publishing fell into bankruptcy in 1931; and soon thereafter Roger Babson's cousin,

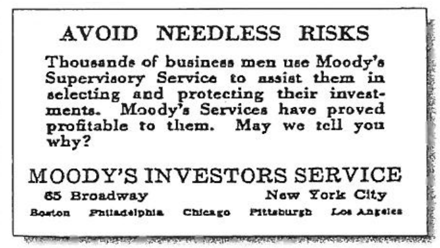
Paul T. Babson, provided the needed financing to gain control of the firm and take it out of bankruptcy.

In contrast, Luther Blake's Standard Statistics Company prospered handsomely following the crash, as fearful investors sought accurate data to protect their investments from further losses. "The beginning of all financial wisdom lies in correct and timely figures," said *TIME* magazine in an article on Standard Statistics published Feburary 9, 1931. "Because in a bear market investors see their mistakes rudely brought to light, they become more appreciative of the need of statistics," the article explained. "Hence to statistical organizations 1930 brought no dearth of business."

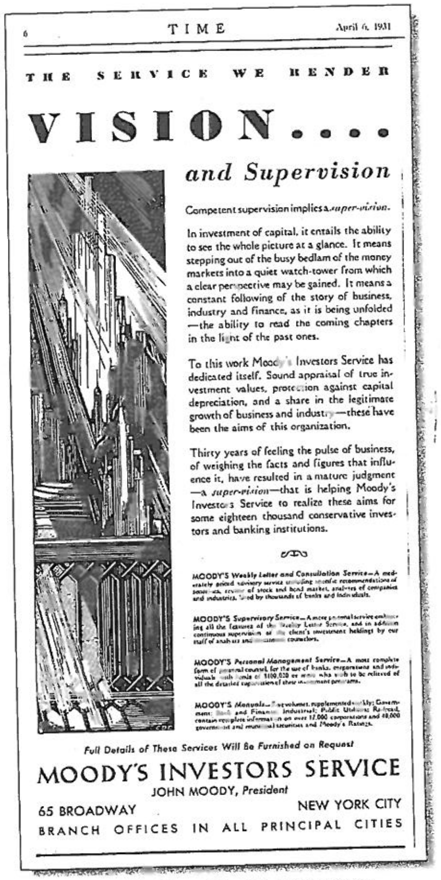
Indeed, Standard saw its business increase by 66 percent in 1930, according to *TIME*, and by year's end the company had 1,200 employees, a gain of 45 percent. In 1931, to meet its need for increased space, the company moved to new quarters, occupying eight floors at 345 Hudson Street. Standard then maintained 30 different services and kept many of its 20 printing presses running 24 hours a day. Their daily mailing of services averaged around three tons.

Moody's saw a similar rise in demand for its ratings and investment counsel, as stock prices continued to fall and the bond markets sold off sharply in late 1931 through 1932. A glance at Moody's advertising in the early1930s reveals the changes and uncertainties in the firm's investment strategy as the crisis deepened.

An ad that ran in the *Wall Street Journal* two months after the 1929 stock crash featured risk avoidance and Moody's role in protecting investors, as shown at left below. A year later (March 1931, see ad below right), when the Dow Jones Industrials Average had fallen to around 180 from 380 at its 1929 peak, Moody's was promoting "Current Investment Opportunities"



Moody ran ads such as these in the *Wall Street Journal* in the early 1930s. The one above appeared January 8, 1930, two months after the 1929 Crash. The one at right ran on March 27, 1931. The Dow-Jones Industrial Average had then lost half its value from the 1929 peak, but still had plenty of downside to go.



In April 1931, Moody's ran this ad in *TIME* magazine promoting its reconfigured investment supervisory services. The ad's Art Deco drawing depicts the view from Moody's "quiet watchtower," to which clients were invited to retreat so as to step out of the "bedlam of the money markets" and into the benefits of the agency's "super-vision."

and the agency's ability to help farseeing, long-pull investors to take advantage of the "unusual promise of 1932." As it turned out, there was more downside to go: the Dow Jones Industrials would fall to a weekly low of 43 in July 1932.

A more prominent advertisement placed by Moody's in *TIME* during April of 1931 was more circumspect. The ad, shown at left, featured the successful investment management service that McCruden later referred to, along with a confident slogan: "Competent supervision implies super-vision."

Those services are further described in the front matter of Moody's Manuals for 1931. In essence, they derived from the "Real Investment Service" that Moody introduced in 1909, but they were now more sophisticated, with a range of service elements targeted at key segments of the investment world.

The Rating Books were still of great value, particularly since Moody's had begun issuing weekly updates on new securities and rating changes. In addition, two new services were added, one offering timely data on dividend announcements, another providing daily bulletins on sinking fund notices and on bonds and stocks called for redemption.

The introduction to the 1931 Manuals emphasized, however, that many investors and bankers "find an urgent need for a type of investment service which will enable them not only to keep abreast of the times, but to enjoy the advantages of consultation and current opinion and advice."

Subscribers to Moody's Basic Consulting Service received ten weekly or monthly products, ranging from Moody's *Weekly Review*

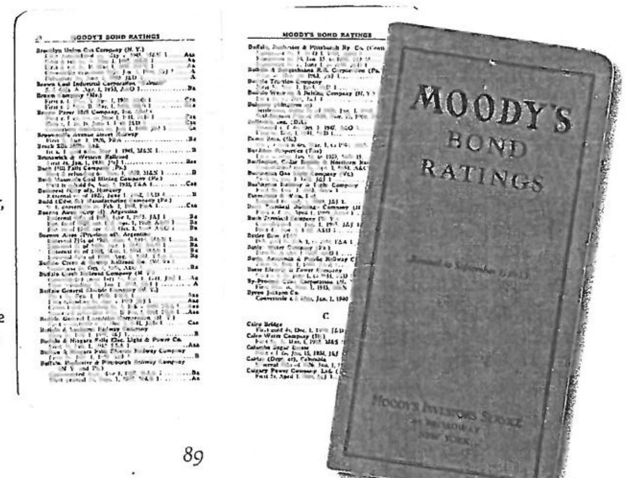
of Securities Markets to *Special Analyses of Industries and Investment Situations*, along with the ability to consult Moody's concerning specific investment problems. Subscribers to the basic service paid $150 annually. For $350 a year, clients of Moody's Advisory Bulletin Service could also file a list of up to 25 securities, for which Moody's analysts would provide an initial assessment, followed by continuous bulletins and advice applying to those securities. For larger portfolios, Moody's charged five dollars annually for each additional security.

Three more complete supervisory services were available for much higher fees to investors with funds of $100,000 or more. Moody's Bank Supervisory Service was designed especially for managers of bank bond accounts. Moody's Personal Management Service was targeted at the investment programs of individuals or organizations. And Moody's Estate and Trust Service was specially designed to provide a complete service to fiduciaries, including "exhaustive analysis of each trust by Moody's Trust Committee, constant supervision of every investment involved, and semi-annual review of the trust as a whole."

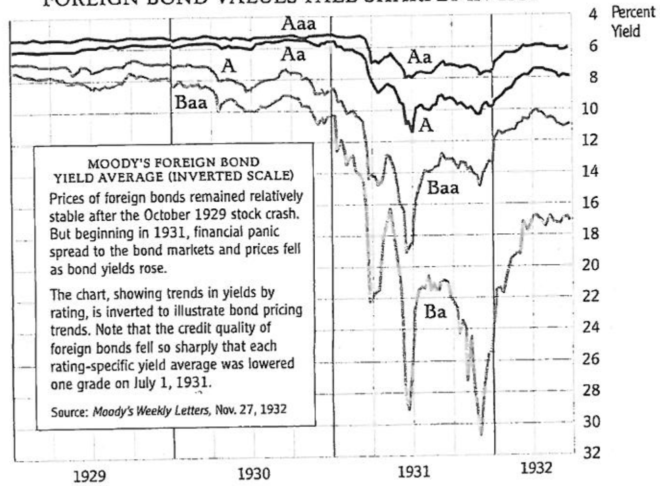
INCREASED RELIANCE ON RATINGS

Ratings could not have been a direct source of revenues during the Depression years, because Moody's did not begin charging issuer rating fees until 1970. But ratings did help to make Moody's manuals and supervisory services more attractive to investors, who were no doubt shaken by the dramatic rise in bond defaults

Bond ratings helped to make Moody's manuals and supervisory services more attractive to investors as bond defaults hit century highs in 1933. The booklet at right, published in that year, was the precursor of *Moody's Bond Record*. Today, all Moody's rating lists are continuously updated and available through the agency's Internet-based research and rating services.



FOREIGN BOND VALUES FALL SHARPLY IN 1931



MOODY'S FOREIGN BOND YIELD AVERAGE (INVERTED SCALE)

Prices of foreign bonds remained relatively stable after the October 1929 stock crash. But beginning in 1931, financial panic spread to the bond markets and prices fell as bond yields rose.

The chart, showing trends in yields by rating, is inverted to illustrate bond pricing trends. Note that the credit quality of foreign bonds fell so sharply that each rating-specific yield average was lowered one grade on July 1, 1931.

Source: *Moody's Weekly Letters*, Nov. 27, 1932

beginning in 1931. By 1933, the market-wide corporate bond default rate rose to what would be a century high of 6.1 percent, up from less than one percent in 1930.

Bond values had already taken a nosedive. Aaa-rated U.S. corporates remained relatively stable under the circumstances; but average yields on those rated Baa rose from around six percent in 1930 to a decade high above 10 percent in 1932.

Foreign bond values fell even more sharply, particularly in 1931, when ratings on all the bonds used to calculate Moody's Foreign Bond Yield Averages were lowered by at least one grade. As shown in the chart above (with yields inverted to illustrate bond pricing trends), yields on A-rated foreign bonds were averaging around seven percent at the beginning of 1930. By mid 1931, yields on the same bonds soared above 18 percent (at which point they were rated Baa). Similarly, foreign bonds rated Baa at the beginning of 1930 were then yielding around eight percent; yields on those bonds shot up to 30 percent by the end of 1931 as the banking crisis forced banks to sell securities to meet depositor demands for currency.

The domestic corporate market also saw a flood of rating downgrades by each of the four major rating agencies during the period, with the result that the speculative-grade portion of the bond market more than doubled, from around 20 percent

of the total dollar volume in 1928 to 48 percent in 1932. Fearing a repeat of the capital market crisis of the early 1930s, rating agencies were slow to upgrade ratings over the following decade. As a result, more than one-third of the dollar volume of corporate securities remained speculative grade through the mid-1940s.

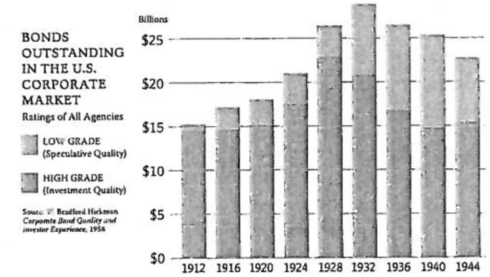
"There is reason to believe," wrote Gilbert Harold in his 1938 book *Bond Ratings as an Investment Guide*, "that the business depression in the early 30s was a factor in increasing the reliance placed upon bond ratings by commercial bankers." Commercial banks, he said, had always been the largest single group of rating adherents. Typical among them was a banker who earned the name "Triple-A James" because of his insistence on buying only bonds rated Aaa by Moody's or the equivalent by other agencies.

"FALLEN ANGELS" FUEL GROWTH OF THE "JUNK BOND" MARKET

THROUGHOUT THE 1920s there was an active market in the U.S. for what would later be termed "junk bonds"—that is, low-grade, high-yield bonds rated below Baa by Moody's or the equivalent by other agencies.

The market grew as Moody's began rating bonds issued by public utilities and industrials companies in 1914, and when other agencies began issuing bond ratings several years later.

With the onset of the Depression around 1931, few new low-grade bonds were issued. At the same time, the four agencies began wholesale downgrading of outstanding bonds and were slow to upgrade as conditions improved—with the result that high-yield bonds, mainly "fallen angels," made up a large portion of the corporate market through the 1940s and beyond.



Source: Bradford Hickman *Corporate Bond Quality and Investor Experience*, 1958

Among the other users of ratings in the 1930s, Harold cites stock and bond brokers, investment houses, insurance companies, trust companies, and investment trusts, as well as individual investors. Many institutions had long maintained internal guidelines limiting them from purchasing or holding bonds rated below a certain level. But if any among the main users of ratings thought to disregard them, government and state regulators took steps to make sure that did not happen.

Official use of bond ratings appears to have begun with a regulation issued by the U.S. Comptroller of the Currency on September 11, 1931. It specified that bonds rated Baa/BBB and above could be carried at cost on their balance sheets; but defaulted bonds and lower-rated bonds had to be marked-to-market (that is, carried at market value as bond prices changed). There was a great advantage to holding bonds that met the regulator's quality standard, because they spared banks from potential fluctuations, particularly deteriorations, in earnings—and subsequently in capital.

Effective February 15, 1936, these practices became further regularized as the Comptroller of the Currency and the Federal Reserve issued joint regulations specifying essentially the same thing—bonds that did not have ratings above the Ba/BB level from at least two agencies had to be marked-to-market. State regulators adopted similar guidelines, thereby expanding the ruling to nearly all commercial banks. Many state insurance regulators (including those in New York) also used ratings in the course of their regulatory activities. However, quality standards did not mandate particular rating levels until the early 1950s, when the National Association of Insurance Commissioners issued numerical grading guidelines that tended to limit bond holdings to the investment-grade level.

BANKERS OPPOSE RATING-BASED REGULATIONS

According to Harold, the bank-related rulings "had tremendous effect," particularly since only 891 of the 1,975 NYSE-listed bonds met the Baa/BBB-or-better test in the mid-1930s. Not surprisingly, many bankers, particularly investment bankers, strongly opposed the ruling.

The fundamental criticism was that it placed too much responsibility with the rating agencies. In an article titled "Bankers Deplore Bond-Rating Rule" (March 22, 1936), the *New York Times* summarized their position based on interviews with investment bankers as well as the rating agencies:

> For two such agencies, regardless of their fairness or integrity in rating, to be in a position to determine the eligibility of certain bonds as investments for member banks superseding the opinion of banks' statistical experts, who are regarded as equally competent, is denounced uniformly in investment banking circles. It is doubted that the rating firms themselves are desirous of accepting such a responsibility.


BANKERS DEPLORE BOND-RATING RULE

Fear Controller's Order as to Eligible Securities Will Hit Investment Buying.

AGENCIES AS ARBITERS

Power Given to Them to Set Values on Offerings Is Called Brake on Sales.

Institutional buying of new securities has received a severe blow, in the opinion of investment bankers, from the restrictions placed on member banks of the Federal Reserve System regarding the type of securities eligible for investment by them. In its present form, the ruling, it is stated, will not only mate-

As reported in the *New York Times*, March 22, 1936, investment bankers were not happy with ratings-based regulations issued by the Federal Reserve that year. They charged that the regulations would unfairly limit bond issuance by smaller, yet sound companies, thereby placing a drag on employment in an already ailing U.S. economy.

Bankers said ratings-based regulations gave the agencies too much say in determining which securities banks could buy.

The *Times* added that the ruling could have far reaching economic implications. It was estimated at the time that 85 to 90 percent of recent bond offerings was being absorbed by banks, insurance companies, and other major institutional investors, with banks accounting for the largest part and bond purchases by individuals almost nil. Bankers viewed the latest regulation "as a serious setback to the realization of a period of new capital flotations." They reasoned, said the *Times*, that "Reopening of the investment market for new capital issues . . . has for some time been not only predicted but widely anticipated as an important factor in relieving unemployment."

Also typical of the concerns at the time was this resolution issued by the Missouri Bankers Association at its annual convention in Kansas City, May 5, 1936:

> We believe that the law does an injustice to millions of dollars of sound securities of medium-sized and smaller companies, whose securities are relatively desirable as those of larger companies. In other words, a premium is placed upon size rather than merit. Furthermore, under the regulation as issued by the comptroller, we believe there is grave danger that many banks will be lulled into a sense of security by the thought that they can safely buy and continue to hold any security which meets the rating requirements, when it is a known fact that these ratings are based upon past performance and do not take into account the possibilities of the future. We further believe that the delegation to these private rating agencies of the judgment as to what constitutes a sound investment is unprecedented in our history and wholly unwarranted by their records in the past.

Federal authorities (including the Secretary of the Treasury, the Federal Reserve Board, Directors of the Federal Deposit Insurance Corporation, and the Comptroller of the Currency) would issue a revised set of regulations, effective July 1, 1938. The new rules classed securities into groupings, with Group I securities stipulated as those "in which the investment characteristics are not distinctly or predominantly speculative grade" (i.e. investment grade). These were the only securities that could be held at cost. Although ratings were not mentioned directly, it was generally agreed by most banking regulators, according to Gilbert Harold, that "investment grade" went no lower than the Baa/BBB rating.

Meanwhile, the rating agencies had begun recognizing their now quasi-regulatory responsibilities. According to the 1936 *New York Times* article, they adopted a policy of rating new bonds prior to their offering dates on the basis of information contained in each security's prospectus, as filed with the Securities and Exchange

Commission. (This policy, designed to provide rating opinions before investors make securities purchase decisions, has remained a guiding principle for rating agencies to the present day.)

STUDIES ATTEST TO RATING QUALITY

Gilbert Harold disagreed with bankers' disparaging views on the reliability of ratings. After comparing company ratings and rating changes with subsequent bond default experience from mid-July 1929 to mid-July 1935, he found that while the record was not perfect, "it is certainly beyond reasonable criticisms."

Harold concluded that "the ratings operate quite effectively to protect the investor against loss, even over a period longer than should be contemplated by the investor without a reappraisal of the status of his investments." He warned, however, that the ratings should be used cautiously: "Under no circumstances should investors assume, as many do, that the rating is a long range, scientific statement of a bond's value, for experience has proved that it is neither dependably long range nor scientific."

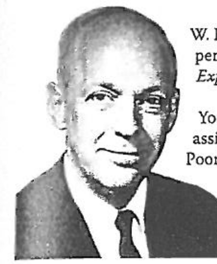
It wasn't until 1958 that anything approaching a statistically accurate assessment of rating performance was available.

It wasn't until 1958, with the publication of W. Braddock Hickman's exhaustive study, *Corporate Bond Quality and Investor Experience,* that anything approaching a statistically accurate assessment of rating performance was available. The study was a product of the Corporate Bond Research Project of the National Bureau of Economic Research, which Hickman directed after World War II through the early 1950s. His team carefully tabulated all ratings assigned by Moody's, Poor's, Standard, and Fitch from 1909 through 1943 using IBM punch cards. They then calculated rating-specific bond default and loss statistics in what was among the first major applications of computer technology to financial market research.

Hickman came to still more favorable conclusions on the reliability of ratings than did Harold. He found that the combined record of the four agencies over the period studied was remarkably good. "Although mistakes were made," reported Hickman, "with great regularity issues rated as high grade at offering and at the beginning of assumed [four-year] chronological investment periods had lower default rates than those rated as low grade. In addition, capital losses, as measured by the difference between par value and market price at default, were consistently smaller for the high grades that went into default than for the low grades."

Unlike Harold, Hickman also found that ratings had proved their long-term dependability through the depression years. Many of his findings were later confirmed in Moody's historical default studies (see box at right).

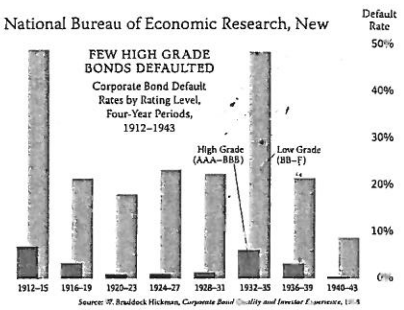
RATINGS PERFORMANCE THROUGH THE GREAT DEPRESSION



W. Braddock Hickman (1911-1970) directed the first major study to assess the performance of corporate bond ratings: *Corporate Bond Quality and Investor Experience,* 1958.

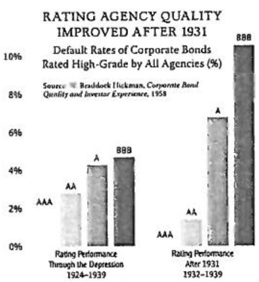
Hickman and his team at the National Bureau of Economic Research, New York, compared ratings assigned each year by Moody's, Poor's, Standard, and Fitch from 1909 through 1943 with corporate bond defaults over the same period.

Overall, Hickman concluded that bond ratings of the four agencies had been consistently reliable measures of default risk through the Great Depression.



Source: W. Braddock Hickman, Corporate Bond Quality and Investor Experience, 1958

For example, as shown in the chart at right, Hickman found that bonds rated what he labeled "high grade" (now termed investment grade) at the beginning of each of eight four-year investment periods during 1912 to 1943 ended up with much lower default rates than did "low grade" (speculative grade) bonds over the same time frames.

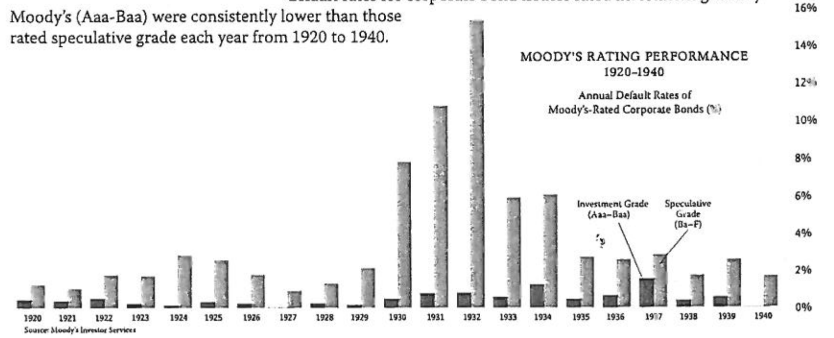


Source: W. Braddock Hickman, Corporate Bond Quality and Investor Experience, 1958

Hickman was also struck by the fact that ratings assigned by the agencies in each of the four high-grade rating categories—Highest Quality (e.g., AAA), High Quality (AA), Sound (A), and Good (BBB)—had likewise been good predictors of bond defaults over longer investment periods.

For example, looking at a 16-year period through the Depression (1924-1939; see chart at the left), Hickman found that successively lower rated bonds experienced higher default rates. Rating performance was even better after 1931 as rating agencies stiffened standards.

Subsequent bond default research by Moody's has confirmed many of Hickman's findings. As shown below, for example, annual default rates for corporate bond issuers rated investment grade by Moody's (Aaa-Baa) were consistently lower than those rated speculative grade each year from 1920 to 1940.



Source: Moody's Investor Services

RATINGS TAILORED TO CAUTIOUS TIMES

By the mid-1950s, ratings had long played a critical role in the capital markets; but the overall demand for ratings had dwindled. Bond default rates remained at historic lows through most of the forties and fifties, thereby reducing the perceived need for credit risk assessment. At the same time, according to Edmund Vogelius, the vice president then in charge of Moody's ratings, bond ratings had become less important for meeting regulatory standards "because banks today hold fewer bonds than they did in the past."

Edmund Vogelius was Moody's vice president in charge of corporate bond ratings in 1957, a post he held through the mid-1960s. After joining Moody's in 1927, he conducted analytical research on bonds and money rates and was later responsible for *Moody's Bond Survey.*

As a result, wrote Vogelius in an article entitled "Moody's Airs Code for Measuring Investment Quality of Bonds" (in the 1957 *Christian Science Monitor* series), Moody's ratings tended to be regarded less as a tool for determining whether a given security met regulatory standards or for "dividing good bonds from bad ones," and more as "a means of distinguishing investment quality."

"We put special effort into our rating work," he explained, "because the process of making ratings with its 'door opening' to valuable information and insights is highly worth while for the contribution it makes to other investment judgments, and thus to the basic value of our advisory services."

Vogelius added that before arriving at a rating on a new issue, Moody's analysts "usually have the opportunity to talk at length with management at a meeting attended by our rating committee members and industry specialists, the officers of the company or municipality, and the underwriters." Prior to this, most of Moody's rating assignments were made on the basis of statistical research and only occasionally included what Vogelius called "quiz sessions" with management. On his watch, Moody's also began to require that bond issuers be accompanied by their investment bankers to help assure the professionalism of the meeting.

Thus supported by a deeper understanding of the issuer's point of view, the process of researching, assigning, and maintaining ratings came to play an increasingly important part in Moody's investment advisory services. "We possess unusual advantages for obtaining important and valuable information in our work as a rating agency," said Vogelius. "Therefore, it is not surprising that many banks and other institutions, as well as individuals who are bond investors, come to us for help and guidance on their bond portfolios."

MOODY'S IN 1957

FROM DECEMBER 10TH TO THE 14TH, 1957, *The Christian Science Monitor* published a series of five articles on Moody's Investors Service, each of them bylined by a key Moody's executive at the time. Together, the articles provide a good overview of Moody's operations and management in the late 1950s.

In 1957, Moody's had a staff of 300, 250 of whom were devoted full-time to factual and analytical investment research. Overall, the company then maintained contacts with 27,000 corporations, financial institutions, and municipalities.

Moody's key publications included the *Bond Survey, Stock Survey, Bond Record, Dividend Record, Moody's Handbook of Widely-Traded Common Stocks,* and *Moody's Manuals.* The manuals were then published in five separate volumes: Industrials, Transportation, Public Utilities, Bank & Finance, and Municipals and Governments. The agency also offered three investment management services at ascending levels of sophistication and fees: Moody's Personal Management Service, Moody's Investment Advisory Service, and Moody's Supervisory Service.

In 1957, Moody's maintained its New York offices in the new Dun & Bradstreet Building at 99 Church Street (D&B would not acquire Moody's for another five years or so). The agency also maintained a midwestern service office in Chicago and a western service office in Los Angeles, along with branch offices in 14 cities across the United States, from Seattle to Atlanta. In addition, Moody's continued to maintain a European office: Moody's Investors Service, Ltd. was then located at King William Street House, Arthur Street, London E.C.4.

Moody's Seeks to Provide Integrated Service to Investors

Manual Publication One of Many Activities

D. B. McCruden
President of Moody's Investors Service

The Christian Science Monitor
December 10, 1957

MOODY'S INVESTMENT MANAGEMENT SERVICE

In a third article in the *Christian Science Monitor* series, long-term Moody's staffer and then vice president Alan W. Wallace explained what sort of analytic guidance Moody's was offering to its clients. Although referred to as Moody's investment management service, Wallace emphasized that it was purely advisory.

The service did not involve buying, selling, or holding securities, but rather "evaluation of, advice on, and monitoring of each client's portfolio of securities."

Alan W. Wallace was vice president and treasurer of Moody's in 1957. After joining in 1924, he had served mainly on the analytical and investment advisory side of the business. In 1962, he would be named president of Moody's, when the company was acquired by Dun & Bradstreet.

Counting the inevitable terminations due to distribution of estates and other similar reasons, the service's annual renewal rate was over 90 percent, said Wallace, adding that "it produces more revenue than either our factual publications or our printed investment advisory services."

As before, Moody's consulting services were highly professional and tailored to the specific needs of a diverse range of clients. For example, Moody's then maintained a separate division for bank investment management and offered specialized approaches for pension and profit-sharing funds, for trust companies, and for individuals. Personal service was assured for each client through the assignment of an appropriately experienced "staff counselor," who worked essentially as the client's "employee," serving as liaison or "translator" between the client and Moody research staff.

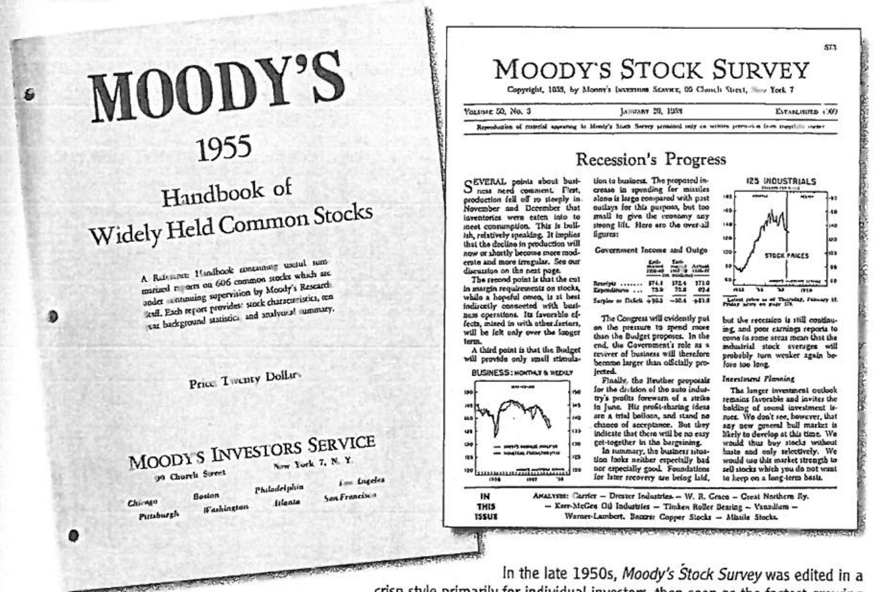
As a first step for new clients, the counselor put together pertinent facts, then devised a basic plan that became the basis on which Moody's managed that client's portfolio. This involved a personal meeting with each client, followed by implementation of the plan and continuous monitoring and supervision of the client's list. Counselors also warned clients of impending dangers and offered suggestions as to "profit-making opportunities and promising exchanges."

"DO-IT-YOURSELF" STOCK SERVICE

By this time, Moody's institutional consulting was focused mainly on the fixed-income side of the market. Back in 1935, *Moody's Weekly Letters* had been split into two new publications: *Moody's Bond Survey* covered the bond markets and *Moody's Stock Survey* was designed to provide both institutions and individuals with "do-it-yourself" investment management tools for running their stock portfolios. By the mid-1950s, this print-based stock service was restructured specifically for individual investors, which Moody's then saw as the fastest growing segment of the investor universe.

Russell Leavitt was vice president and economist of Moody's when *The Christian Science Monitor* articles appeared. He joined Moody's in 1919, then headed Moody's London office in the late 1920s. In the 1950s, Leavitt headed up Moody's economic research and was editor of *Moody's Stock Survey.*

Another long-term staffer, Russell Leavitt, a Moody's vice president, described the refurbished service in a fourth *Christian Science Monitor* article, "Stock Survey Data Guide Investor Managing Own Portfolio." It was developed, said Leavitt, from a nationwide study of financial information needs and preferences among some 50,000 investors. Its centerpiece was the Stock Survey, which was sold as an easy-to-read, eight-page weekly with timely articles to keep each subscriber abreast of Moody's opinion on "where the market is." It also offered advice on "what fields of investment will best meet his needs, which stocks will and which definitely will not fit in with his program, how almost all active stocks are developing, and where a switch of a definite purpose would be wise."

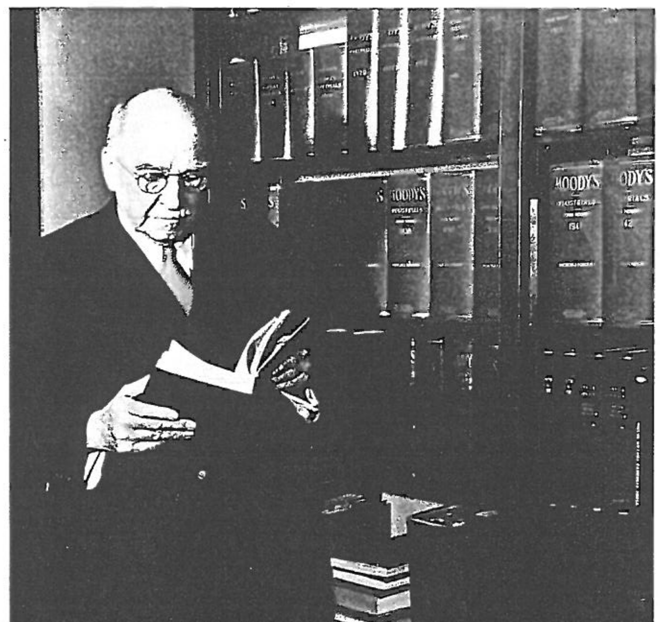


In the late 1950s, *Moody's Stock Survey* was edited in a crisp style primarily for individual investors, then seen as the fastest growing segment of the investor universe. Subscribers also received a quarterly handbook with key statistics, summary analysis, and Moody's Ranking Scores on some 600 common stocks.

Quarterly, subscribers also received *Moody's Handbook of Widely Held Common Stocks,* which contained key statistics and analysis on some 600 common stocks, along with Moody's Ranking Scores (indexes showing how each stock stood relative to the others on its long-term growth and dividend record, recent market performance and yield, among other statistics). Regular subscribers were further entitled to an initial review of their portfolio based on their personal circumstances and objectives. They could also consult in person with a Moody's stock analyst, or make inquiries by letter, wire, or telephone. The "investment character" of the service, explained Leavitt, was "enterprise tempered with prudence," holding to "a course of honesty and frankness."

MANUALS: MOODY'S ENCYCLOPEDIA OF FINANCE

By 1957, Moody's Manuals had also moved well beyond their beginnings. For one thing, they had now come to be known popularly as "Moody's Encyclopedia of Investment and Finance," and often something more than that. "Next to the Bible," proclaimed the *New York Times* in a 1956 article on John Moody, "Wall Streeters Put Their Faith in Moody's Investors Manuals—Industrial, Transportation, Public Utility, Municipal and Government, and Bank and Finance."



Pierre S. DuPont (1870–1954) was president of DuPont company from 1915 to 1919 and served on its board of directors until 1940. Sometime in the 1950s he posed for this picture while reading a Moody's Manual.

Around the same time the five Moody's Manuals manuals weighed 50 pounds and were widely known as "Moody's Encyclopedia of Investment and Finance."

For another, the Manuals had put on weight. The five annual volumes now weighed in at over 50 pounds and contained a combined total of 17,196 pages. Editor-in-chief John Sherman Porter estimated that, with a paid circulation of more than 25,000, "there are probably a half-million Moody's Manuals on library shelves and in reference collections throughout this country and abroad."

J. Sherman Porter was vice president and editor-in-chief of Moody's in 1957. Porter joined Moody's in 1919. He became editor-in-chief of Moody's Manuals in 1924 and held that post until he retired in 1962.

Meanwhile, the subscriber base for Moody's Manuals had extended well beyond Wall Street to "every field of commercial endeavor—including airlines and chambers of commerce, broadcasting companies and chemical firms, law firms and shipbuilders." Moody's then kept a staff of 80 busy year round producing the annual volumes and updates twice weekly. And Moody's London operation published a similar service with up-to-date information on some 5,000 British, European, and colonial business enterprises and companies.

Porter emphasized that, unlike the first rating books, the current Manuals were strictly factual: "Adjustments for analytical purposes are left to the analysts themselves to make in a way they wish. However, we provide them with all the explanations, footnotes and other details needed to do their job properly and accurately. Moody's Ratings are the only 'matters of judgment' that appear in the corporate descriptions: everything else is factual."

STANDARD & POOR'S IS FORMED, FITCH SURVIVES . . . BARELY

After Paul Babson recapitalized Poor's Publishing in 1931, the firm continued to operate through the depression years. But by 1940, Poor's was again in trouble. When the company sold its subscription list to Moody's for "a mere song," Moody was surprised to find that the total circulation of all Poor's manuals had dropped to less than 7,000 copies. "The truth is," said Moody, "that they had been slowly dying ever since 1924." The *coup de grace* came in March 1941, when Poor's completed a merger with Standard Statistics Company to form Standard & Poor's. Babson became chairman of the new company, and Clayton A. Penhale, a Standard Statistics vice president, was named president.

In March 1941, Poor's Publishing Company merged with Standard Statistics to form Standard & Poor's

PUBLISHERS PLAN MERGER NEXT WEEK

Formal Ratification for Poor's and Standard Statistics to Be Voted by Stockholders

WORK WILL BE EXPANDED

Jobs for 900 Men and Women Will Be Provided Under New Arrangement

The stockholders of Standard Statistics Company and Poor's Publishing Company will meet next week to vote on a proposal to consolidate their organizations. Since both organizations are closely held, the vote will be purely an official ratification of the merger, of which the terms are not disclosed. No outside financing is involved or

The New York Times, March 1, 1941

Louis W. Holschuh was Moody's longest-serving employee when he succeeded John Moody as president in 1944. Holschuh had joined John Moody & Company in 1901. He was named vice president of Moody's Investors Service when the firm was founded in 1914 and was a major shareholder when Moody's went public in 1928. Holschuh served as chairman from 1956 to 1959.

In 1944, age 76, Moody retired as president of Moody's, but stayed on as chairman. Holschuh became president. In 1954, the company moved from 65 Broadway to the new Dun & Bradstreet Building at 99 Church Street. Two years later, Moody retired for good and moved to La Jolla, California. McCruden was then named president and Holschuh became chairman.

The *New York Times* published this feature article on John Moody May 6, 1956, the year he retired. The same year, Moody (age 88) moved with his wife Anna to LaJolla, California.

Personality: Boswell of U. S. Corporations

John Moody, at 88, Aims to Issue Data Far Into Future

By ROBERT E. BEDINGFIELD

Next to the Bible, Wall Streeters put their faith in Moody's Investors Manuals—Industrial, Transportation, Public Utility, Municipal and Government and Bank and Finance.

Although these invaluable reference works have only a paid circulation of 23,000, their subscribers are generally people who make them available to dozens or even hundreds of persons. The demand for them in the public library is so great that they are chained to the shelves and stacks.

Close scrutiny of these five tomes—Moody's Industrial, for example, runs to 1,883 pages set in six-point type (twelve lines to an inch)—explains why the financial student holds them in such reverence. They blueprint the course of business through the years. It can safely be said that nearly anything of a financial statistical nature available anywhere on a publicly owned corporation will be found in Moody's manuals.

The New York Times

When it comes to statistical sourcebooks, Wall Street's best sellers for 56 years have been Moody's Investors Manuals. John Moody, their founder, is shown reviewing 1900 edition.

Ancestor Was 152, 'Tis Said

The man who founded these books in 1900 and who has issued them annually every year since was 88 years old last Wednesday and still on the job. But John Moody is a young 88 and he intends to keep on the job, since he fully expects to live to be 100.

Those who know Mr. Moody have no doubt at all that he may well achieve his aim. They not only stress the fact that he enjoys the health and drive of a man half his age, but that longe[illegible] [illegible] consistent

[illegible]tigating and analyzing securities and business.

"I seemed doomed indefinitely to a mere expert's job," Mr. Moody says, "and I didn't want to be an expert. I wanted to follow the much more lucrative road to riches which was then being trod by others all around me. One bright morning the thought flashed through my mind that somebody, sooner or later, will bring out an industrial statistical manual, and when it comes it will be a gold mine. Why not do it myself?"

[illegible] calls. Mr. Moody with his newfound wealth decided to spread out a bit. He entered politics in 1902, bought and operated a newspaper; started a weekly magazine, became a half owner of a brick manufactory, a heavy investor in stocks of empty Western and Canadian mines and, above all else, a "great endorser" of notes.

When the panic of 1907-8 struck, Moody's plunged into reorganization and Mr. Moody had to start out all over again. This time, however, he decided that mere statistical figures were not [illegible]h use; that when the [illegible] were [illegible]

that "J. M." is one of the world's best watchers. He keeps close tabs on just about everything in his field and many others—to say nothing of his own organization.

But by no means does Mr. Moody follow an all-work-and-no-play grind. He takes long vacations: he and his wife returned only last month from a two-month vacation at their son's Texas ranch. He drove the 3,000 miles himself in his own sleek Thunderbird. When in New York City the Moodys make their home in a midtown hotel.

[illegible] when [illegible]

Meanwhile, the rating business continued to consolidate. Fitch Publishing Company had survived both the depression and the turbulence of World War II. But in September 1960, S&P paid an undisclosed amount of cash for Fitch's entire publications business, along with the rights to its AAA–D rating symbol system. Of 10 publications purchased, S&P said it would continue publishing Fitch's weekly letter, monthly stock survey, and weekly bond record. For its part, the firm's president, Erling C. Olson, said Fitch Investors Service would continue to offer security ratings, a supervisory service, and other specialized financial services. Following the acquisition, S&P adopted Fitch's rating symbols, which have since become—along with Moody's Aaa–C system—the most widely recognized notations for fixed-income debt ratings.

Standard & Poor's Buys Publications Of Fitch Company

The Standard & Poor's Corporation, the world's largest publishers of financial advisory and statistical services, has acquired several publications of the Fitch Publishing Company, which also has long published financial statistics.

The announcement of Frederick Stahl, president of Standard & Poor's, did not disclose the purchase price, which was in cash. Both companies are closely held.

Erling C. Olsen, president of Fitch, said his company under [illegible] of [illegible]

The New York Times, September 24, 1960

MUNICIPAL RATINGS ENTER THE SPOTLIGHT

In 1949, S&P became the second agency to publish ratings on municipal bonds thereby breaking Moody's thirty-one-year monopoly in the sector. Moody's had published its first municipal bond ratings in 1918; and soon thereafter, the agency had expanded its rating franchise to include virtually all securities issued by municipalities in the United States and Canada.

Looking back, however, David Ellinwood, the man in charge of Moody's municipals in the 1940s and 1950s, admitted that Moody's early municipal ratings were "the fifth wheel of a research enterprise devoted chiefly to business news and corporate debt securities." Quoted in a feature article in the *New York Times* by Paul Heffernan ("When Moody's Comment is Baa, That is Merely a Passing Grade," September 2, 1958), Ellinwood added that "the financial world assumed—wrongly, it turned out—that local government bonds, by and large, were like peas in a pod and gilt edged to boot."

Indeed, more than 90 percent of the dollar volume of U.S. municipal bonds was rated in the Aaa or Aa categories in 1929. Moody's municipal bond rating staff did not exceed four people during the period from 1920 to 1935, said Ellinwood, and information from municipalities was skimpy. According to one outside commentator, the rule of thumb for assigning ratings was the number of railroads passing through town: "One railroad called for single A, two for Aa, and so forth." As a result, the reliability of municipal bond ratings during the Great Depression was far worse than what Hickman found for corporate bonds.

Most municipal bond holders eventually received full recovery on defaulted

A feature article on Moody's municipal bond ratings ran in the *New York Times*, September 2, 1958. It featured David M. Ellinwood, left, then head of the agency's municipal ratings section.

bond investments, but the ratings proved to be very poor indicators of default risk. Of the rated bonds that plunged into default in the 1930s, 48 percent had been rated Aaa in 1929 and 78 percent were rated either Aaa or Aa. With the general collapse in security values in the mid-1930s, Moody's downgraded municipal bonds precipitously and reorganized its municipal rating department. That was when Ellinwood joined; he was named head of the department in 1944.

By 1958, according to Ellinwood, Moody's was publishing financial statistics on more than 6,000 municipalities and had issued ratings on 4,618 municipal securities. At the time, only 129 of those carried Aaa ratings, and three quarters of all the remaining rated securities fell into the A or Baa grades. It is not surprising, therefore, that as municipalities faced fast rising financing needs in the expanding US economy after World War II, municipal administrators began to recognize the added costs associated with lower ratings and the importance of putting their best foot forward in meetings with the rating agencies.

Heffernan led his article in the *Times* with a statement that would continue to ring true with municipalities in the years ahead: "When public administrators take time out from their taxing, spending and electing to go out to borrow money," he wrote, "they have to reckon with Moody's Investors Service." In the next decade, however, municipal finance officers would also find themselves reckoning with S&P and a new entrant—soon to be Moody's parent—Dun & Bradstreet.

THE MOODYS AWAY FROM MOODY'S

AS EARLY AS 1909, when Moody was building up his new rating manual and investment advisory service, he purchased land at Merriewold, a tony summer home community located in the rolling hills of Sullivan County, New York, about one hundred miles northwest of New York City.

He built a house and a personal retreat there, then later moved the family to an authentic Japanese house and garden at the entrance to the community. For more than three decades, Merriewold was a place where Moody and family could enjoy life away from the city and where Moody found a quiet place for thinking and writing.

Most likely, Moody first came to Merriewold through his early association with Henry George, the philosopher-economist whose "single-tax theory" had fired Moody's ventures in reform politics earlier in the decade. George was one of the founders of Merriewold in the 1870s. He died in 1897 during his run for mayor of New York City against the corrupt Tammany establishment. But by that time, according to a history of the community published in 1989, Merriewold had become known not only as a summer retreat but as "a place to commune with like-minded serious thinkers who were interested in seeing the world become a better place." Private land ownership was allowed at Merriewold, but true to George's philosophy, roads and other areas of the 2,000 acre park were "owned by all" and could never be sold or exploited for profit.

Moody bought his first portion of the land from George's son, Henry George, Jr., a U.S. Congressman whose sister had married the playwright William de Mille in 1903. Their daughter, Agnes de Mille, was to become a celebrated dancer and choreographer, a contributor to the artistic life of Merriewold, and a close friend of the Moody family.

Over the years, the goings on at

John and Anna Moody at Merriewold.

The Ledge as it appears today, nearly a century after Moody built it to serve as the family's summer and weekend home at Merriewold.

Merriewold were sufficiently newsworthy to warrant mention in New York social columns. In July 1910, for instance, the *New York Times* reported that the Moody's were among the participants in activities at Merriewold Inn, where Mrs. Moody and Mrs. Henry George, Jr. sang songs accompanied by William de Mille on piano.

Sometime later, the Moody's built a rustic, Adirondack-style house at Merriewold called "The Ledge," which they made their summer and weekend home throughout the 1920s. Moody bought more property at Merriewold during the 1920s; and, according to Merriewold records, he was a constant source of financial backing for projects such as the construction of a new gatehouse.

During the 1930s, Moody played a critical part in saving the colony from bankruptcy. He paid the bills for the Merriewold Association's clubhouse and absorbed losses incurred by the club. He also funded the purchase of many distressed properties, which he then sold back to the community for one dollar each. As a result, Moody became known locally by various laudatory titles, including "Merriewold's Angel" and the "Federal Reserve Bank of Merriewold." "Without him," said one property-holder, "we probably would not have survived the Great Depression."

SHO-FU-DEN

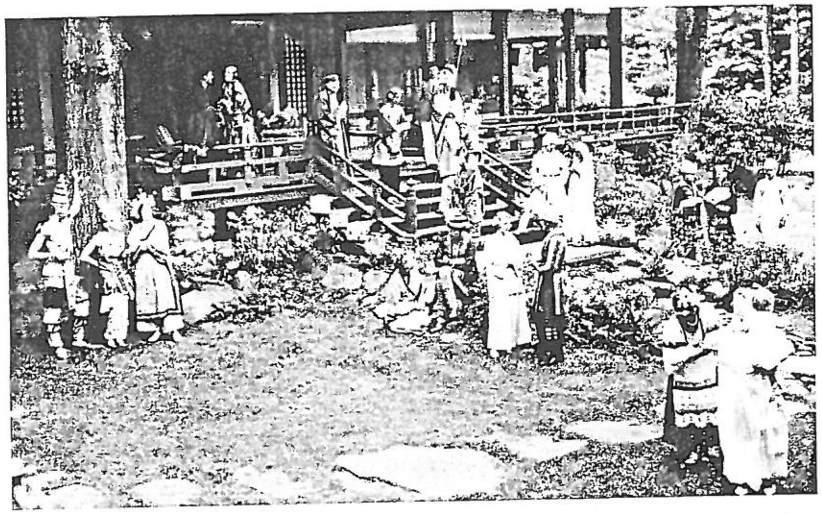
In the early 1930s, Moody purchased Merriewold's architectural gem: Sho-Fu-Den. Widely regarded in the early part of the last century as the finest Japanese residence in North America, it became the Moody's home at Merriewold through the mid-1940s.

The house had been built by the Japanese government for the St. Louis World's Fair in 1904. It was then purchased, transported, and reassembled at Merriewold by Dr. Jokichi Takamine, a Japanese-American chemist who, among many accomplishments, founded Tokyo Artificial Fertilizer Company and later isolated and purified the hormone adrenaline in his New York City laboratory. Takamine and his wife Caroline brought a team of gardeners over from Japan to create a garden in the style of Japanese nobility, complete with a small lake, artfully trimmed trees and rhododendrons, and stone figures and lanterns.

In her biography *Where the Wings Grow,* Agnes de Mille recalled that:

> Moody presented Sho-Foo-Den to his wife to her dumbfoundment. 'Follow Caroline Takamine into that mansion?' Mrs. Moody was a charming lady with an exaggerated bosom, very thick ankles and sentimental proclivities, but she had enough sense to be slightly intimidated by the prospect of maintaining the house.

In springtime, the gardens of Sho-Fu-Den were ablaze with the colors of azaleas, rhododendrons, and flowering trees.



Soon after the Moody's purchased Sho-Fu-Den in the early 1930s, they held a costume party to celebrate the event. Mrs. Moody appears lower right, holding a child.

Still, it was to be home and she chintzed it up and placed comfy wicker chairs about and screened the porch against mosquitoes and set out a Greek stone bench or two by the lake. She took down the Hiroshige and Utamaro prints and put in their place her son Ernest's water colors. It was a home in a way, but she did say she thought she was running a summer hotel.

CAMP SOLITUDE

Anna Moody was known for being an active socialite in the community and a great party-giver and art collector. She would bring famous and not-so-famous opera singers, painters, and recently dethroned Russian nobility to Merriewold for weekends. There would be much discussion of art, playing of original music, and a general air of performance.

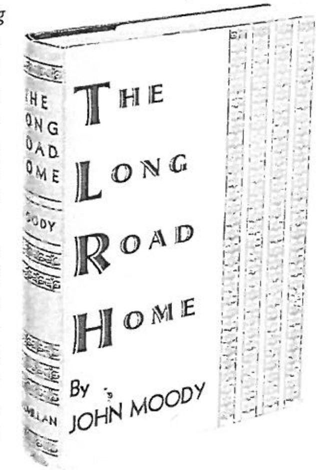
Moody himself placed greater value on privacy. He had always maintained a personal retreat at Merriewold; then sometime during the 1920s, he built a small cottage across the lake there, which he dubbed "Camp Solitude." Commenting that he was "born to be a carpenter," Moody says that he built the cottage and all of its furnishings by his own hands.

"This country phase is important to my story," Moody wrote in the first installment of his autobiography, *The Long Road Home*. In his early years at Merriewold, wrote Moody, Camp Solitude was his business workshop in the country: "I carried there and worked out many a business problem which otherwise would have tied me to the city."

After World War I, then following the death of his son John Edmund in 1926, his country retreat took on a more personal, philosophical purpose, says Moody:

> . . . for there it was in those strenuous post-war days I took time to plunge into new habits of serious reading and study, after the manner of my more youthful period; and it was there I indulged my subjective self, and tried to puzzle out more constructive views of life. And there it was that in the course of years, I came to know life's deeper meaning.
>
> The Merriewold colony had its literary and artistic aspects; there were those of talent, including poets, playwrights and musicians—all charming people—and the friendly social life in this little summer community was alluring. But more to me than this was the fact that it was a place of rest and solitude. That rolling, wooded country, far from the sordid city, has ever been to me a little paradise. Always have I been gripped by the sunsets there; and being by habit an early riser, seldom did the summer sun come over the ridge in the early mornings but I was up to greet it.

Moody wrote the first installment of his autobiography, *The Long Road Home*, at Merriewold during the height of the Depression. It was published in 1933.



It was mainly at Camp Solitude that Moody wrote *The Long Road Home*, which, as the *New York Times* later put it, "is the story of his disillusionment as a youth and his return to things 'loved long since and lost awhile.'" Moody's book recounts the ups and downs of business life, when philosophical and religious concerns took a back seat to agnosticism as he built up his successful enterprise. And it tells the story of his eventual "return home," during the height of the Great Depression, in his early sixties, to the Catholic Church.

Moody writes that spiritual awakening first came to him in Vienna while on a business trip in 1927, just after the death of John Edmund. On a subsequent trip with his family to Egypt and the Holy Land, he resolved his conflict between agnosticism and Catholicism, in favor of the latter, on the shores of the Sea of Galilee. The time arrived, wrote Moody, to "make my submission." And so he did, on June 6, 1931, in the chapel of the Sisters of St. Dominic at St. Joseph's, near Merriewold, where the tolling of the Angelus at the convent chapel had so often awakened him from his slumbers.

The Long Road Home was followed by a sequel, *Fast By the Road* (1942). In 1945 Moody published *Cardinal Newman*, a biography of John Henry Newman, the English preacher and poet who, like Moody, converted to Roman Catholicism from the Anglican Church. Active as a Roman Catholic layman, Moody was a strong advocate of Christian principles in business. In 1933, he was made a Knight Commander of the Order of the Holy Sepulchre of Jerusalem by Pope Pius XI. He also held an honorary Doctor of Laws from Boston College.

RETIREMENT

In 1946, Moody sold Sho-Fu-Den to an outsider and the remainder of his property to his son Ernest. Ernest, in turn, sold off all the Moody property at Merriewold in the mid-1950s.

After leaving Merriewold in the mid 1940s, Moody resided at 27 Park Avenue in New York City. Moody "retired" in 1944, but stayed on as chairman until 1956. During this period, he maintained an office at Moody's and kept close tabs on the business, presenting his "Fifty-Year Review of Moody's Investors Service" to management just before the firm's 50th anniversary in 1949.

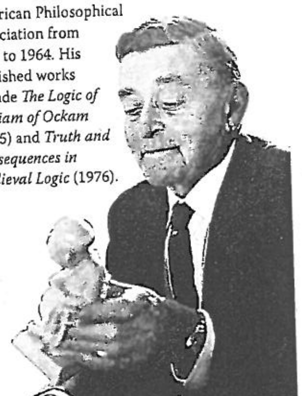
"But by no means does Mr. Moody follow an all-work-and-no-play grind," wrote Robert E. Bedingfield in a *New York Times* feature article, May 6, 1956, titled "Personality: Boswell of U.S. Corporations." According to Bedingfield:

> [Moody] takes long vacations: he and his wife returned only last month from a two-month vacation at their son's Texas ranch. He drove the 3,000 miles himself in his own sleek Thunderbird. When in New York City the Moody's make their home in a midtown hotel.
>
> Mr. Moody, when he isn't at work or at play, is an omnivorous reader. He admits to consuming everything from G.K. Chesterton to the

ERNEST MOODY

Moody's second son, Ernest Addison Moody (1903-1975), spent his early years with the family at Merriewold and later followed the literary-philosophical track that his father had left behind when he went to work on Wall Street.

Ernest became a noted philosopher and medievalist, as well as a musician and scientist. He served as professor of philosophy at Columbia University and The University of California, and he was president of the American Philosophical Association from 1963 to 1964. His published works include *The Logic of William of Ockam* (1935) and *Truth and Consequences in Medieval Logic* (1976).

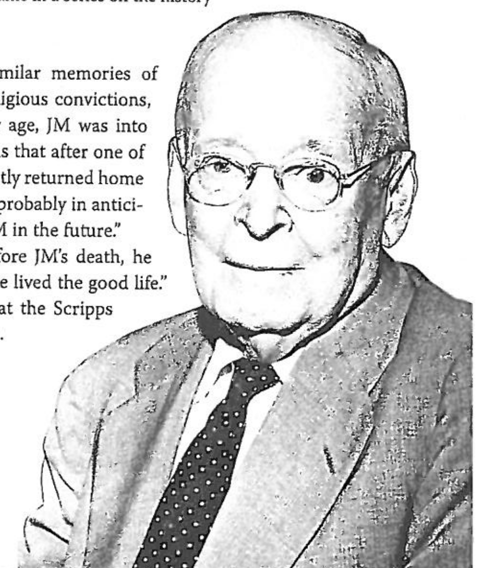


Shortly after retiring as chairman of Moody's in 1956, Moody left New York with his wife to live "the good life" in La Jolla, California. Moody appears with Anna at the center of this family photo. At left are Ernest Moody and his wife and daughters, with other family members at right.

> Commerce Department's Monthly Survey of Current Business. He has just finished perusing 'Pioneering in Big Business,' the first volume in a series on the history of the Standard Oil Company (New Jersey).

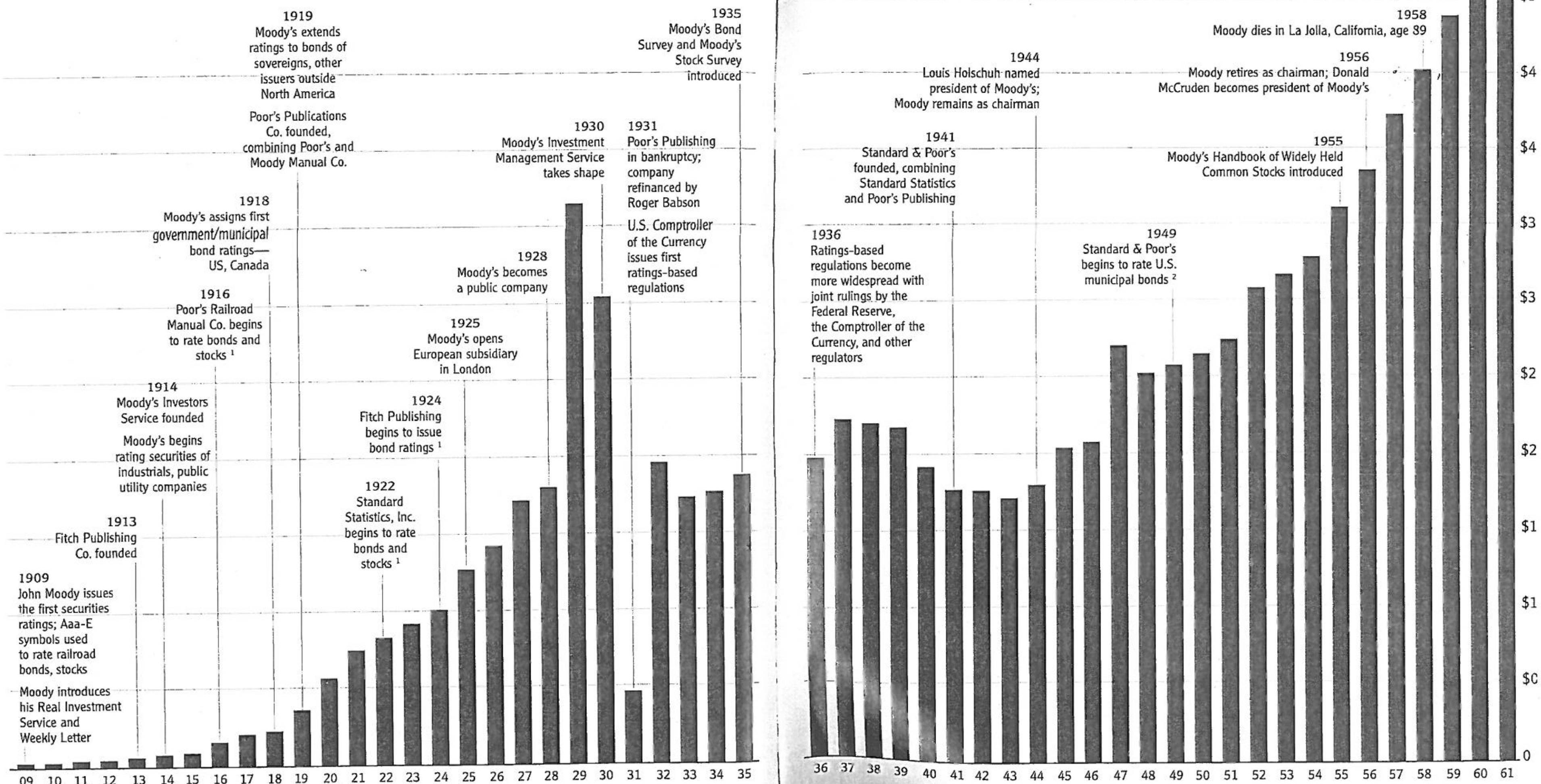
Moody's economist Bohdan Kekish had similar memories of Moody around that time: "Despite his strong religious convictions, Moody was a fun-loving person. Even at a later age, JM was into starlets and fast cars. A joke around the office was that after one of the partners was a passenger in JM's car, he promptly returned home and increased his insurance policy's coverage . . . probably in anticipation of many fast and frenzied car rides with JM in the future."

Then, said Kekish, "About a year or two before JM's death, he retired and bought a house in California where he lived the good life." On February 16, 1958, Moody died in La Jolla at the Scripps Memorial Hospital after a brief illness. He was 89.



RATING INDUSTRY TIMELINE 1909–1961

Moody's Revenues ($ Millions)



[1] Source: Gilbert Harold, *Bond Ratings as an Investment Guide*, 1938

[2] Source: Report issued by The Task Force on Municipal Bond Credit Ratings, *The Ratings Game*, 1974