Meanwhile, Moody continued to publish articles in outside publications, including one in *The Independent* (December 24, 1908) titled "The Expansion of Wall Street" and one titled "The Recovery from Depression" in *Annals of the American Academy of Political and Social Science* (November 1909). And for a period of several years probably beginning in 1907, Luther Blake engaged Moody to serve as editorial supervisor for his Standard Bond Descriptions service. The service included detailed information on each bond covered, along with "an analysis of the investment position of each issue by Mr. Moody."

Whatever else he may have been doing at the time, it is clear that Moody devoted most of his attention to untangling the complicated financial mess he had created. Fortunately, he had a wise and sensible lawyer, Richard T. Green, who had done legal work for him during the boom years and who would now guide him back to solid ground. On the way out of his mire, Moody recalled that he utilized "extraordinary finesse in the art of stalling," which got him some loan extensions.

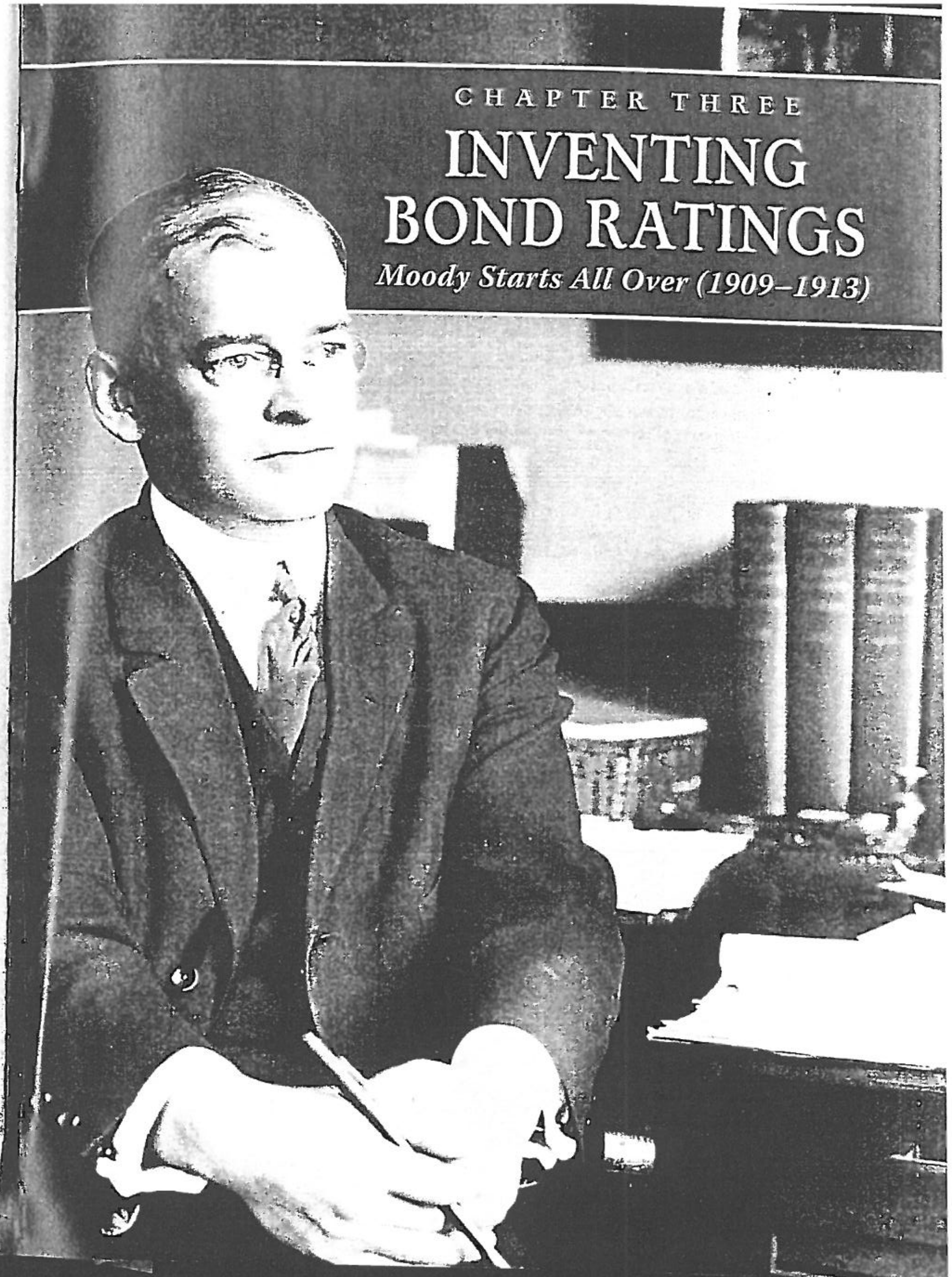
Standard Bond Descriptions

This service is conducted under the editorial supervision of Mr. John Moody, founder of "Moody's Manual" and author of "Moody's Analyses of Railroad Investments." Each card record contains a detailed description of the particular bond covered, *taken from first-hand sources*, including a concise but adequately comprehensive abstract of the mortgage and an analysis of the investment position of each issue by Mr. Moody. In this important work Mr. Moody has the cooperation of the best legal and statistical talent, including some of the brightest bond men in New York and other financial centers. The completed work, therefore, is as nearly adapted to the practical needs of bankers, brokers and bond dealers as it is possible to make it.

For several years beginning 1907, Moody served as editorial supervisor for Luther Blake's Standard Bond Descriptions service. This ad appeared in *Moody's Analyses of Railroad Investments*, 1910.

"But what I did for the most part," said Moody, "was to emit a great sheaf of promissory serial notes, maturing each month for years and years ahead. How these notes were forced down the throats of some of my creditors is more than tongue can tell. But they were; and they were all ultimately paid off in cash to the last dollar, with interest at six per cent. I paid out over one hundred and fifty thousand dollars before I was through."

Thus Moody himself avoided personal bankruptcy, but just barely. Looking back, he agreed that one of his lawyers at the time, probably Greene, gave the best summation of this phase of his career. Surveying Moody's finances in amazement, he exclaimed: "As a businessman, you are a great optimist!"



CHAPTER THREE

INVENTING BOND RATINGS

Moody Starts All Over (1909–1913)

JOHN MOODY was good at bouncing back. He had done so after his youthful stab at newspaper publishing in Bayonne, and after twice gambling in stocks and losing all his savings in the market downturns of 1893 and 1901.

Now, after the panic of 1907, he had lost not only his business but his good name; and he knew that his failure would carry down many who trusted him. One Sunday morning in the late summer of that year, while on an outing with his family on Block Island, he even contemplated suicide. Just after dawn, Moody later wrote, he was sitting on a rock at the edge of a long sandy bluff overlooking the ocean—his face in his hands, thinking. "Gloom gripped this man's soul and in fancy he pictured these mighty waves creeping up to engulf him. His romantic mind saw the limitless ocean as the great mother who might take him to herself and give him peace."

John Moody with his wife Anna and two sons, John Edward (left) and Ernest Addison, circa 1908

Fortunately, for Moody and those of us who have lived in his long shadow, he was too optimistic a person to allow himself to collapse completely. "After a short period of hopelessness and despair," says Moody, "courage began to revive within me." That morning at Block Island was the nadir from which he began to start all over.

Thirty-nine-year-old Moody swore to himself that he would "never again borrow money, endorse a note or identify myself with any business undertaking outside of my own; nor try in the stock market or out of it, to get rich quick." At the same time, he resolved to "say NO, NO, NO to every pipedream" laid at his feet and to "stick to his last" on a single track of business.

Moody began to rebuild on that basis in the summer of 1908, knowing that he was now competing in a very different business environment than the one he walked into in 1900. Not only was he up against the Poor's concern with its manuals extending across all the major industries, he faced stiff competition from his own estranged brand, the "Moody's Manuals" now published by Roger Babson. He must have known instinctively that he would have to exert all his entrepreneurial energies to create a publication or service that would be of greater practical value than anything that had gone before.

His first big idea was to create a new kind of analytical manual, one designed "for its actual users." Rather than reproducing a mere listing of raw information on securities and their issuers, the publication would provide a practical *system* for weighing their value. It would include the relevant data needed for investment decisions organized in a standard, readily comparable format. It would also provide concise opinions on the investment quality of each issuer's securities using a simple, easily identifiable system of rating symbols.

THE ORIGINS OF SECURITIES RATINGS

Where did the idea come from? Moody later acknowledged that in concept he adopted the method followed by the Bradstreets and the Duns in rating the credit of merchants. He was also aware that others had considered such a project.

In 1901, as reported by Gilbert Harold in his 1938 book *Bond Ratings as an Investment Guide,* two young men from Gloucester, Massachusetts, Roger Babson and Freeman Putney, had discussed the idea of rating securities as they rode the train to and from Boston, dreaming of the glamorous possibilities of making their mark in the financial world. But they did not put their idea into effect until much later.

Around 1903, Floyd Mundy began to bring out a publication called *The Earning Power of Railroads,* which contained the basic railroad operating and financial statistics for the purpose of showing the true way to judge the investment value of bonds and stocks. Mundy, however, never carried the plan far enough to include ratings.

From his work at Spencer Trask, Moody knew that large institutions, particularly insurance companies, had long had the practice of classifying bonds into groups "according to their quality and salability." And as early as 1906, so many users of Moody's Manual were asking for opinions on securities that he worked up a tentative scheme for a book analyzing railroad bonds and stocks.

As early as 1906, so many users of Moody's Manual were asking for opinions on securities values that he worked up a tentative scheme for a book analyzing railroad bonds and stocks.

But the rating idea didn't truly strike a nerve with Moody until he discussed it with Carl Snyder, whose book *American Railways as Investments* was published by The Moody Corporation in early 1907. Snyder had hoped to bring out a new edition annually, but amid that year's financial panic the plan was dropped—until Moody, in effect, picked it up and began running with a similar idea of his own the following year.

Aaa
Aa
A
Baa
Ba
B
Caa
Ca
C
Daa
Da
D
E

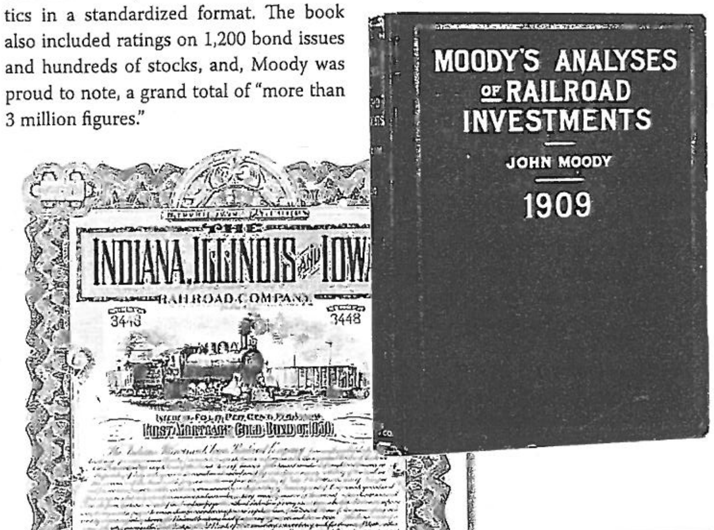
To be precise, Moody learned much later, probably during his business trips to assess economic conditions in Europe after the Great War, that some bond rating systems had existed in Vienna and possibly Berlin for a considerable time. He told Gilbert Harold that "these foreign systems had been developed by symbols, and the *Austrian Manual of Statistics*, which carried these symbols, was quite well known in Europe, although not in this country."

It is not known what happened to the European rating systems; most likely, the war and post-war bankruptcies and inflation got in the way of bond market development, and thus the need for ratings. In the United States, securities markets were again on the upswing in early 1908. So, as with the first Manual, Moody's "rating scheme" was right on time and his willingness to take a risk was again well placed. "The difference between me and all the others," said Moody, "was that I *did* attempt it while they did not."

A SCIENTIFIC METHOD

With the help of Richard Greene, Moody found sufficient backing to bring his idea to fruition. He formed another new company for the purpose: Analyses Publishing Company, headquartered at Moody's old address of 35 Nassau Street, with Greene and Enos Richardson as minority shareholders. The first edition of Moody's new type of "manual" came out in April of 1909.

Following Snyder's lead, Moody focused entirely on the railroad industry. The book included systematic analyses of 105 railroad systems, supported with statistics in a standardized format. The book also included ratings on 1,200 bond issues and hundreds of stocks, and, Moody was proud to note, a grand total of "more than 3 million figures."



The securities rating industry was born in April 1909 with the publication of *Moody's Analyses of Railroad Investments.* Moody's new and improved manual introduced the first securities ratings—the Aaa-through-E rating symbols that have been in continuous use by Moody's Investors Service for a century.

The book's complete title is awfully long but descriptive of the value Moody believed he would bring to investors: *Moody's Analyses of Railroad Investments Containing in Detailed Form an Expert Comparative Analysis of Each of the Railroad Systems of the United States, with Careful Deductions, Enabling the Banker and Investor to Ascertain the True Values of Securities by a Method Based on Scientific Principles Properly Applied to Facts.*

Moody devoted the first one hundred pages of the book to a detailed account of his new analytical method, boasting that he was "throwing a flood of light on the general subject of railroad investment which will mark a distinct advance in the field." The key to his analysis, as Moody described it at great length, was to recognize that "the earning capacity of the property represented must be weighed and considered in advance of everything else." Further, because "a railroad is essentially a property in motion . . . its value depends primarily on facts connected with never-ceasing action." The rating for each individual security, then, comes mainly from an assessment of the claim security holders have on that value.

Moody boasted that he was "throwing a flood of light on the general subject of railroad investment which will mark a distinct advance in the field."

Analysis of each railroad had essentially four steps, beginning with an assessment of the railroad's *physical factors.* This included information on the road's location and territory, a table on its diversity of freight tonnage, and a table with a record of mileage, equipment, and passenger and freight density, among other statistics.

Second, each report looked at the railroad's *income factors,* including its gross revenues, maintenance expenditures, transportation and traffic expenses, fixed charges, margin of safety over charges, and so on—all reduced to a mileage basis.

Third, *capital factors* were examined, including a record of the road's balance sheets, also reduced to a mileage basis, and accompanied by analytical comments. In each step of the analysis, ten years of statistics were provided, and their averages were compared with those for four other railroads in similar territory.

Fourth, a complete record of the railroad's *bond and stock issues* was given, along with the rating of each and the key factors from which the rating was derived—including priority of claim and general security, average income available for payment to investors, interest required per mile, and a factor of safety. Each issue's degree of *security* was ranked using terms such as "Very High" or "Doubtful." The issue's *salability* as recorded in the markets was ranked in the same way. The final rating was then derived from those assessments of security and salability, coupled with the analyst's judgment (which for many years was always that of Moody himself). A sample report from Moody's 1909 book of analyses appears as Appendix IV.

CREDIT RATING ANCESTORS

JOHN MOODY ACKNOWLEDGED that the method he followed in his first rating book was, at least in part, borrowed from the Bradstreets and the Duns. The two concerns, which merged to form Dun & Bradstreet Corporation in 1933, traced their origins back to the Mercantile Agency, founded in 1841 by Lewis Tappan.

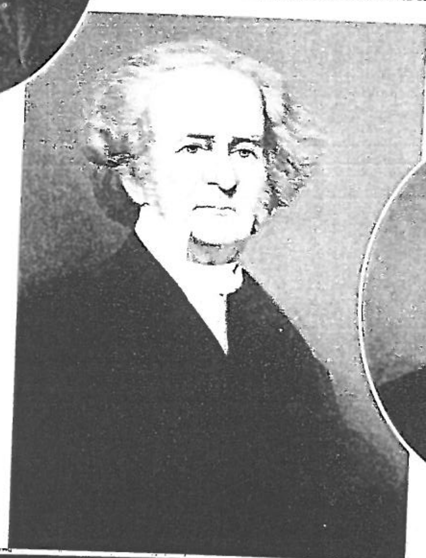
Tappan (1788-1873), born in Northampton, Massachusetts, was a Yankee Calvinist with a worldly, gregarious side. In the early nineteenth century, he and his brother Arthur became wealthy silk traders in New York, where they were also active abolitionists who established America's first Anti-Slavery Society.

In 1834, Lewis Tappan's house was burned down and his warehouses were attacked by anti-abolitionist mobs; then the brothers nearly lost their silk business in the Panic of 1837. But through those years of turmoil, they learned important lessons in the art of extending credit—so much so that Lewis became known in New York for his skills at sizing up customers and recovering bad debts. As word spread, jobbers and other merchants routinely sought his advice on hard cases. Tappan decided to capitalize on those skills.

Using his extensive connections in the abolition movement, Tappan set up a network of correspondents throughout the Northeast. By 1843, he employed 180 local credit reporters who would send their reports to the Mercantile Agency, located at what is now Hanover Square in lower Manhattan. To assure confidentiality, Tappan maintained a strict policy that subscribers to his service could only learn the content of his credit reports by coming personally or sending a representative to hear the reports read to them privately in the agency's reporting hall—always at a whisper.

Over the next several decades, Tappan's successors—notably, Benjamin Douglass and Robert Graham Dun—extended the firm's reporting network across the country, forming R.G. Dun & Company in 1859. But the next major advances in the industry—those most akin to Moody's first rating manuals—came in the early 1850s, when John M. Bradstreet, operating out of Cincinnati, Ohio, began to collect, market, and regularly update his credit reports, which subscribers kept in loose-leaf binders.

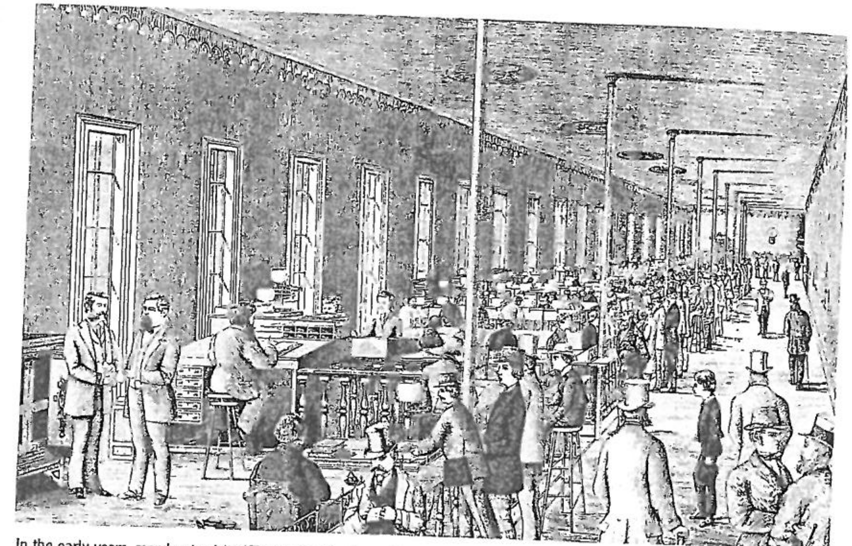
To maintain confidentiality, Bradstreet conveyed his standardized credit assessments—e.g., "making money," "economical," or "not too much extended"—using a coded numbering system that could only be deciphered by subscribers who had the key to their meaning. This cumbersome system, using up to 13 digits to summarize the creditworthiness of each business or individual, may be seen as the earliest beginnings of the credit rating system.



Lewis Tappan (center) founded the Mercantile Agency in 1841.

Robert Graham Dun (top) took over the company in 1859 and remained at its head for nearly 40 years.

John M. Bradstreet (right) established a credit reporting agency in Cincinnati in 1849, then moved his headquarters to New York in 1855.

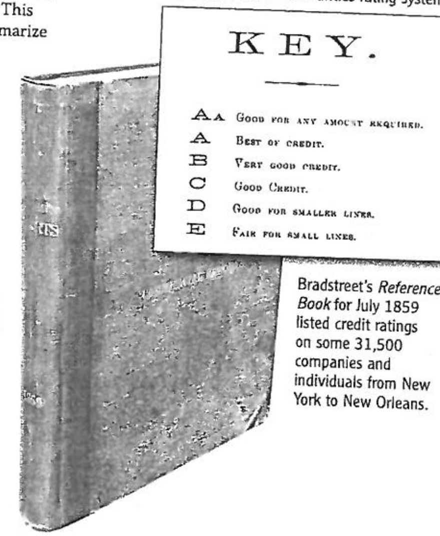


In the early years, merchants visited The Mercantile Agency's reporting hall to hear credit reports read to them at a whisper.

But the true forebear of the rating system appeared in 1857 after Bradstreet moved his firm to New York and began publishing credit reports in the form of hard-bound "Reference Books." In annual editions of those books, Bradstreet introduced a single rating system that conveyed his overall opinion of each entity covered in his reports. He used capital letters A through E in sequence to indicate descending levels of credit quality, adding a "double-A" (AA) category to identify the strongest credits, those his reporters found to be "Good for any amount required."

R.G. Dun and Company began issuing similar reference books, including credit ratings, in 1859. Dun's credit distinctions were mainly numerical—stretching from the highest rating of "No. 1" ("Unquestioned") to "No.1½" ("Strong"), and so on down to "No. 4," which, probably owing to a sense of gentlemanly propriety, was left undefined.

John M. Bradstreet published the first credit ratings in 1857. He used letter rating symbols—including a "double-A" (AA) category—that bear a family resemblance to Moody's Aaa–E securities rating system.



Bradstreet's *Reference Book* for July 1859 listed credit ratings on some 31,500 companies and individuals from New York to New Orleans.

MOODY'S RATING SYMBOLS

Few today, it must be admitted, study Moody's "scientific principles" for more than general insights into the art of credit analysis. The strongest, most lasting light thrown by Moody's first rating book emanates, rather, from the Aaa-through-E rating symbol system it introduced.

As Moody hinted, the particular symbols he chose apparently derived from those used by the Bradstreets and the Duns. Of the two, John M. Bradstreet's system, with its top rating of "double-A," seems closest to Moody's.

Whatever their source, the rating symbols Moody introduced in 1909—using capital letters in sequence and the letter "a" in lower case for finer distinctions—have remained in use by Moody's and Moody's customers without interruption for almost a century. Moody's first rating scale is shown below in summary form:

KEY TO MOODY'S SECURITIES RATINGS, 1909

(Summary Definitions)

Aaa	*Highest class;* value not affected by normal changes in earning capacity
Aa	*High-grade;* high investment value but slightly inferior to Aaa securities
A	*Generally high grade;* but not regarded as being entirely secure
Baa	*Good but second-grade,* with a speculative tinge
Ba	*Fairly well secured,* but more affected by changes in earning power
B	*Much more speculative;* directly responsive to changes in earnings
Caa	*Not true investment class,* but with income typically well above interest costs
Ca	*Speculative,* but with moderate security potential
C	*Not well secured,* with slight, if any, surplus above interest costs
Daa, Da, D	*Of almost purely speculative value,* and of doubtful nature
E	*Very weak or in default*

In the full rating definitions for 1909 (see Appendix III), Moody stresses that the top three rating categories, Aaa-A, "can be regarded as good, and the differences between them are not very great." Although Moody altered the precise wording of the definitions (roughly every ten years), the stipulation that there are only fine distinctions between the top three rating categories has persisted to the present day.

The stipulation that the Baa category has a "speculative tinge" has also persisted.

During the depression years of the 1930s, when the division between investment-grade (Baa and above) and speculative-grade securities (Ba and lower) came to be a market and regulatory benchmark, Moody's definitions had already specified that the "speculative characteristics" of Baa-rated securities were balanced by stronger "investment characteristics." Conversely, Ba-rated securities were defined as those in which "Investment characteristics are not entirely absent, but speculative elements begin to dominate." (See Jerome S. Fons, "Tracing the Origins of 'Investment Grade,'" *Moody's Special Comment,* January 2004.)

Although Moody's bond rating system initially contained fourteen symbols ending with E, an F was added in 1914. Both of those categories were dropped in 1923.

Although Moody's bond rating system initially contained fourteen symbols ending with E, an F was added in 1914. Both of those categories were dropped in 1923. In 1930, Moody's also dropped the Daa, Da, and D categories, thereby further imputing relatively greater risk to the remaining lowest categories.

It is important to note that Moody's original ratings were not specifically credit ratings, as they have evolved today. For one thing, as already mentioned, they were used to rate the overall "investment quality" of all of each company's outstanding securities, including bonds, as well as preferred and common stock.

A single set of definitions was applied to both bonds and stocks in 1909; stocks continued to be rated using the same symbols as for bonds, but with a separate set of definitions, mainly to reflect the greater role of salability in the investment quality of a stock. Stock ratings were discontinued by Moody's in 1935. With the increasing market need for a reliable measure of credit quality, particularly since the 1970s, salability and other elements of overall investment quality no longer play a role in Moody's bond ratings.

WORLDWIDE PRAISE . . . AND CONFUSION

Looking back today, it is clear that the publication in 1909 of *Moody's Analyses of Railroad Investments* marked the beginning of the modern bond rating business. But that is not how it was viewed at the time.

True, the book was widely praised in financial publications on both sides of the Atlantic. In New York, the *Journal of Commerce* called it "a distinct improvement over any other financial reference book," and *New York Commercial* wrote that it "should be welcomed to the shelves of every man who is interested directly or indirectly in railroad operation and financing." *Financial World* proclaimed that "Mr. Moody has come to be regarded as an authority on and analyst of security values of international renown."

In the latter half of 1909, Roger Babson, new owner of Moody Manual Company, ran a fliurry of ads in *The Wall Street Journal* promoting *his* "Moody's Manual." Moody himself had no money for advertising that year.

The *London Financial News* said that the book "contains a wealth of finely reasoned argument on the merits or demerits of the various roads and their securities, and in short, it gives evidence of many months of scientific labor, which speaks volumes for the enterprise and industry of Mr. Moody and his staff of assistants." And the *Financial Times* recommended the book especially to bankers and trust companies, saying that it would enable them "to ascertain the true worth of American railroad investments."

Notably absent from any of the reviews quoted by Moody in his 1910 edition, however, was any mention of securities ratings. Instead, most reviewers praised Moody's new analytic methods, while others confused Moody's new "manual" with the "Moody's Manuals" then published by Roger Babson.

The *Wall Street Journal,* for example, did not review *Moody's Analyses of Railroad Investments.* But on July 22, 1909, an article in the *Journal* announced happily that "Moody's Manual for 1909 is now being distributed to subscribers." The Babson manual was lauded for having been expanded to 3,300 pages, covering 8,000 corporations. "One of the most important new features in the railroad section," according to the article, "is a series of 100 analytical criticisms of the principal steam roads, signed by Roger W. Babson."

The article added that Babson's series "allows of accurate comparisons of values of securities" and that the 1909 manual "should prove of great value and service to investors and all who are interested in investments." This sales position was backed up by dozens of ads placed in the *Wall Street Journal* and other publications by Moody Manual Company in 1909 and thereafter.

Moody did no advertising at the time, but he did take pains to differentiate his new publication. "The book is in no sense a 'Manual,' he declared in the 1909 edition. "It is an analysis of Railroad Values, and not a statistical record, such as the

Railroad Manuals and publications of like character." Moody's attempt at product differentiation was apparently too subtle to have any effect on confused customers. In fact, Babson's "Moody's Manual" for 1909 was oversubscribed. The *Wall Street Journal* reported on December 1 that, "owning to an unusual demand," the publishers would issue a second edition of the 1909 manual on December 4.

A STORM OF OPPOSITION

Because securities ratings were then so new to the financial markets, Moody probably sensed that it was not so much the ratings as the quality of his statistics and his new scientific method that would help to sell his analyses. Moreover, he may have been reluctant to advertise ratings, because, as he recalled years later, they "raised a storm of opposition, not to mention ridicule in some quarters."

Because securities ratings were then so new to the financial markets, Moody probably sensed that it was not so much the ratings as the quality of his statistics and his new scientific method that would help to sell his analyses.

The source of that opposition will come as no surprise to present day readers. "In no circles has the attitude toward bond ratings been more hostile than among the investment bankers," wrote Gilbert Harold. The investment houses quickly recognized, Harold surmised, that ratings tend to narrow the bid-ask spread and facilitate the valuation of bonds by investors.

Corporations were also opposed to ratings at first, especially those whose issues were assigned low or mediocre grades. One firm, according to Harold, was reported to have offered options on stock to Moody in return for a more favorable rating. (Moody rejected the offer.) Nor could issuers who were unhappy with their ratings have missed the fact that Moody himself cautioned readers that "arbitrary judgment is used to a large degree."

Over time, commercial banks, other institutions, and many individual investors welcomed the ratings; and bond salesmen in particular quickly found their value as a selling tool. Looking back, Moody insisted that the rating book "took hold with dealers and investment houses, making some money from the start, and long before 1914 it was a recognized authority and 'Moody's Ratings' had become an important factor in the bond trading and bond selling field." But that was five years after the first ratings were introduced. In the meantime, it is clear that revenues from the first rating books were generated mainly by the analytical insights they contained, not their securities ratings.

MOODY'S "REAL INVESTMENT SERVICE"

Moody had another big idea in 1909. After the publication of the first rating book he received a stream of letters from investors who wanted advice on all sorts of

Real Investment Service

As an investigator and analyst of investments the undersigned has for a good many years made a careful study, not only of general financial and business conditions, but also of individual investment values. In founding and building up a large statistical publishing business an enormous accumulation of facts resulted, making it in many ways a simple matter to secure the necessary data for properly passing upon the real worth of investment issues. And when, in 1905, "Moody's Magazine" was established, the policy was adopted of not merely attempting to interpret the trend of the markets, but of constantly emphasizing the importance of careful analysis of the individual securities themselves. This line of work was further extended when "Moody's Analyses of Railroad Investments" was established as an annual publication, and an organization was developed for furnishing a special Investment Service, out of which has grown the present large establishment.

The Service embraces the following features:

1. **Weekly Review of Financial Conditions**, being a careful analysis of the events of the week and of the financial, industrial or political factors which influence the security markets.

2. **A Special Analysis** (issued each week) of some particular property or some specific financial subject.

3. **Weekly Bond and Investment Letter**, which analyzes recent bond offerings, suggests plans for proper diversification of investments, points out strong and weak points in different issues, etc.

4. **A Monthly Trade Barometer**, which embraces a full analyses of business conditions with elaborate and complete statistical records.

5. **An Investment Valuation Record**, issued once a month, showing the investment yield of the leading issues, margin of safety in earnings, etc.

6. **A Personal Correspondence System**, whereby all clients have the privilege of making specific inquiries once a week on matters which are of particular interest to them.

7. **A Security Record System**, whereby the client may, if he chooses, file a confidential list of his holdings for the purpose of receiving regular advice regarding the list, with suggestions for change, etc. These lists are cross-indexed and filed for constant reference.

(The letters and bulletins are all issued in uniform size and a leather binder is furnished for filing the issues as they appear).

Terms: $6 per month, or $50 per annum in advance.

JOHN MOODY

35 NASSAU STREET, NEW YORK

This ad appeared in *Moody's Magazine* circa 1912.

investment problems. At first he attempted to furnish such information free. But before long half his time was eaten up by unpaid correspondence.

It was then that Moody decided to blaze a new trail into what he soon advertised as his "Real Investment Service." The first element of that service to take shape was what he dubbed *Moody's Weekly Review of Financial Conditions* ("Moody's Weekly Letters" for short). Moody had already begun writing some market reviews for *Moody's Magazine* and from the volume of letters he was now receiving, he must have sensed a huge demand for more timely and subjective investment advice than he could ever offer in the annual rating books.

Moreover, while Moody faced strong competition from his own orphaned brand, here the competition was minimal to non-existent. Babson was offering his Stock and Bond Card System out of the Moody Manual Company offices at 33 Broadway, but Moody viewed the service as superficial. A so-called "scientific service" put out by James K. Brookmire of St. Lewis was "too high-brow to get a wide circulation." And Moody knew that Luther Blake's Standard Statistics Bureau presented little competition in the area of weekly publications. Moreover, says Moody, Blake was "beginning to make the same blunder that had ruined me—building up a printing plant."

The first issue of the weekly letter appeared on July 1, 1909. At start-up, Moody followed the same low-budget program that he used with the first Moody's Manual in 1900. He drew up a prospectus, printed it for $40, and for $60 mailed it to all bankers and brokers around the country and to several thousand individual investors who had subscribed to *Moody's Magazine* before the 1907 crash. As subscriptions flowed in, including more than a hundred at $50 to $60 per year, his old manual printer agreed to print 500 copies for $10 a week.

Over the ensuing months, Moody expanded the service to include personal correspondence and much else. Each month in *Moody's Magazine* for 1912, he advertised that subscribers to his service would receive *Moody's Weekly Letter*, a

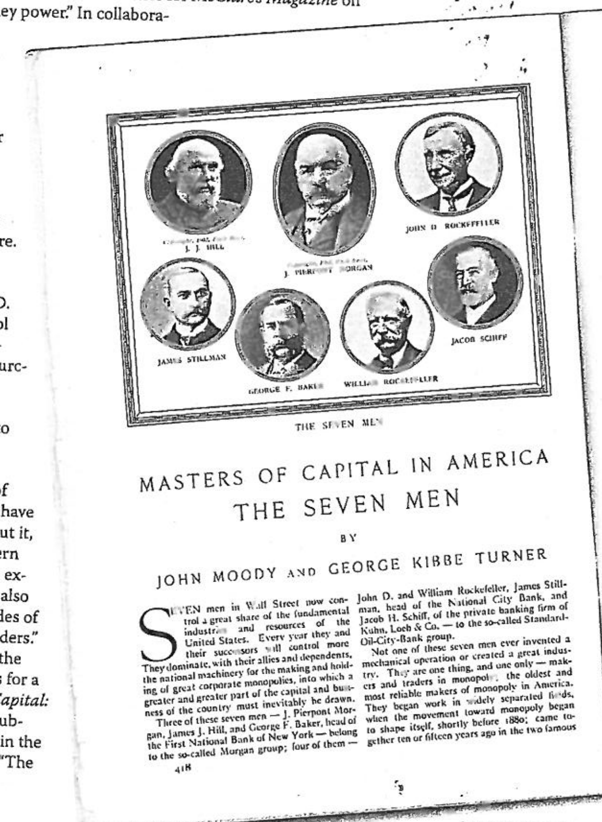
MOODY'S SERIES IN McCLURE'S ON WALL STREET AND THE "MONEY POWER"

SOMETIME IN 1909, the reformer Robert LaFollette had suggested to S.S. McClure that Moody be urged to write a series of articles for *McClure's Magazine* on Wall Street and the "money power." In collaboration with George Kibbe Turner, Moody produced a series entitled "Masters of Capital in America," which appeared in the magazine from November 1910 to May 1911.

A centerpiece of the series was an article titled "The Seven Men," the first page of which is shown here. It explains how these Wall Street titans, from J. Pierpont Morgan to John D. Rockefeller, came to control "a great share of the fundamental industries and resources of the United States."

By 1910, Moody had moved beyond his foray into progressive politics. So the articles project a more balanced view of the masters of capital than LaFollette may have expected. As Moody later put it, they "told the story of modern Wall Street in popular style, exposing the corruptions, but also showing the constructive sides of many of the big business leaders."

Moody would later use the *McClure's* article as the basis for a book titled *The Masters of Capital: A Chronicle of Wall Street*, published in 1919 as Volume 41 in the Yale University Press series, "The Chronicles of America."



McClure's Magazine, November 1910

special analysis issued each week on a particular property or timely financial subject, a monthly trade barometer, an investment valuation record, and a personal correspondence system, "whereby all clients have the privilege of making specific inquiries once a week on matters which are of particular interest to them." Notably, the service also included a "Security Record System, whereby the client may, if he chooses, file a confidential list of his holdings for the purpose of receiving regular advice regarding the list, with suggestions for change, etc."

B.C. Forbes reported that within a year of start-up the net income from Moody's weekly service was running beyond $10,000 annually.

Both the rating book and the weekly service were profitable during the first year, Moody recalled. But his weekly letter cum investment advisory service seems to have generated a very large share of his profits for some time. In his 1924 article on Moody, B.C. Forbes reported that within a year of start-up the net income from Moody's weekly service was running beyond $10,000 annually. He added that "On an investment of $100 [Mr. Moody] has built up, in fifteen years, without putting in another dollar of new capital, a business which he would not sell for $3,000,000." The article makes only passing mention of the rating books.

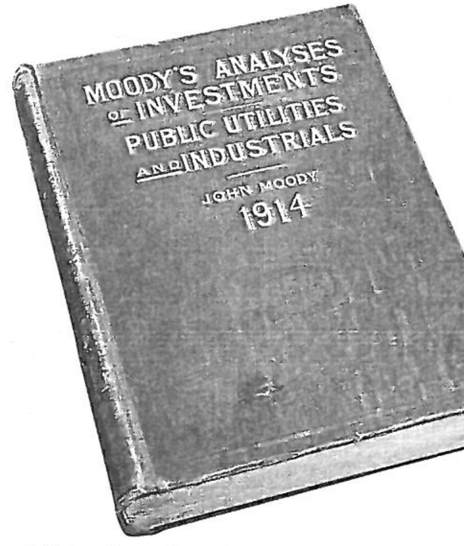
ONE HAND WASHED THE OTHER

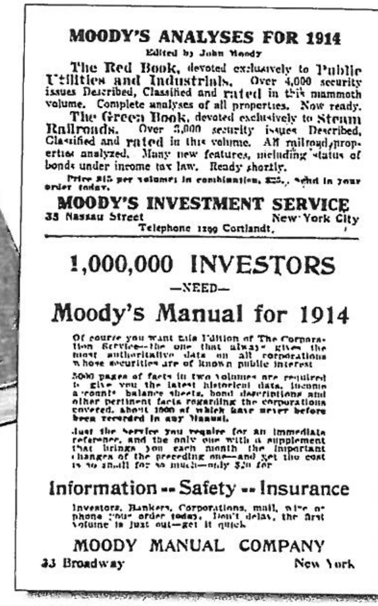
Careful readers will have noticed that Moody seems now to have broken his promise to run his business on a single track. Moody himself would not agree. He emphasized that the two lines of business developed together: "These two activities harmonized perfectly; one hand washed the other, for each was a 'feeder' to the other. Purchasers of the Rating Books were followed up for a service subscription, and vice versa."

For many years, Moody wrote the weekly letters himself, carried on all subscriber correspondence, and operated the service out of his old office at 35 Nassau Street. Meanwhile, after a short stint working for Babson, Louis Holschuh was back running the office and handling sales, and Charles Frothingham Bridge ("five feet tall and deaf as a post, but who had a good slow talent as an assistant editor") was doing the compiling and gathering data for the rating books.

By 1913, they were hard at work compiling a new volume covering industrials and public utilities. When the new book came out in early 1914, Moody's newspaper advertising trumpeted it as "The Red Book," devoted entirely to public utilities and industrials, with complete analysis and "Over 4,000 security issues Described, Classified, and Rated in this mammoth volume." Moody's "Green Book," on steam railroads, had a green cover and included ratings on 3,000 railroad securities, nearly double the coverage of the 1909 volume.

In the same newspapers, often side by side, Babson's Moody Manual Company



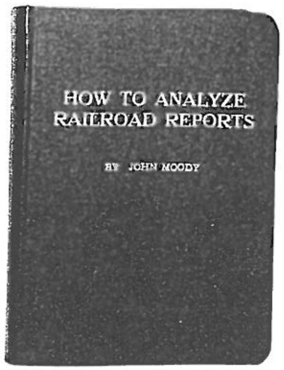


Confusion and competitive marketing continued in early 1914 between John Moody's "Moody's Analyses" and Roger Babson's "Moody's Manuals," as illustrated in these advertisements from the March 21, 1914 issue of the *Wall Street Journal*. The ad at the top features Moody's new Public Utilities and Industrials book ("The Red Book," shown at left), including coverage of "over 4,000 security issues Described, Classified, and Rated." The ad just below it promotes Babson's Moody's Manual as "the one that always gives the most authoritative data on all corporations whose securities are of known public interest."

advertised the two manuals in its "Corporation Service" as "the only one that always gives the most authoritative data on all corporations whose securities are of known public interest." For his part, Moody had already begun responding to such advertising, as he did in a "Special Notice" in the 1913 edition of the Steam Railroad book: "'Moody's Analyses of Investments' has no alliances or connection with any other publication . . . The statement that 'Moody's Analyses' is in some way connected with the so-called 'Moody's Manual,' or 'Corporation Service,' is absolutely without foundation. Mr. Moody has never had any connection whatever with the 'Corporation Service,' and severed his connection with 'Moody's Manual' more than five years ago."

To better compete, Moody sold the red and green books for $15 each, with a combination price of $25—"two for a quarter." Moody Manual Company was then selling its competing manuals for $20 each, with no discount for purchasing both of its volumes.

Sometime in 1913, Moody formed Moody's Investment Service, a sole proprietorship to encompass the rating books and the investment service, which he had been operating for four years as an individual. When the public utilities and industrials book came out, Moody retitled the rating books, calling them *Moody's Analyses of Investments.* These continued to be published by Analyses Publishing until early 1914, but they were advertised as products of Moody's Investment Service. That changed when Moody's Investors Service was formed the following year.



Around the same time, Moody drew on the explanation of his analytical method in *Moody's Analyses of Railroad Investments* to publish a textbook on the subject, *How to Analyze Railroad Reports* (Analyses Publishing Company, 1912).

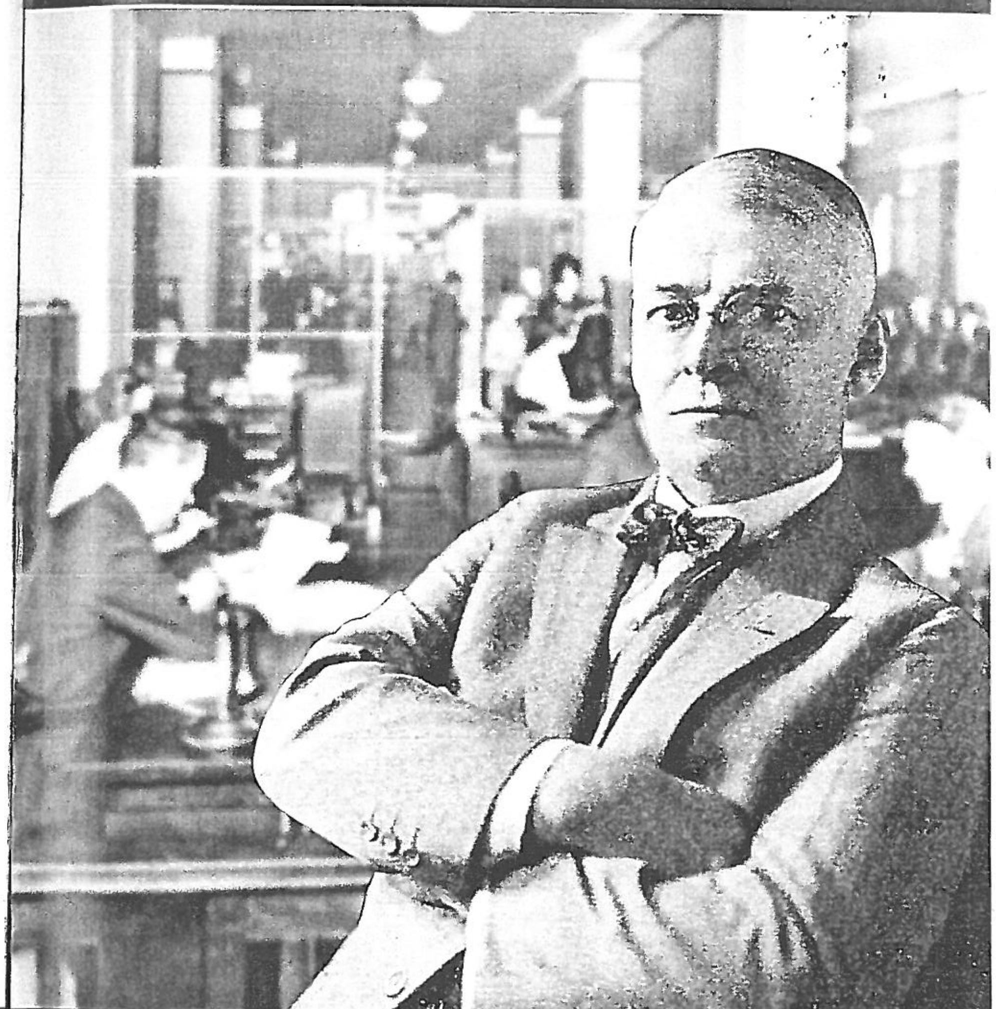
Meanwhile, Luther Blake's Standard Statistics Bureau was in trouble. In 1913, Luther Blake bought Roger Babson's Stock and Bond Card System for $125,000, after he had already "sunk a pot of money" into his printing plant. Burdened by these expenses, Blake offered to sell Moody a 50% interest in his outfit for $10,000; but Moody turned the offer down, having committed to staying on track with his core business.

As Moody continued to keep his promise, his personal fortunes improved. In 1909, he started buying land at Merriewold Park, a summer home community in upstate New York. He built a house at Merriewold in 1910, and began living there during the summer and on weekends for the next 25 years (see "The Moody's Away from Moody's," page 105). A year or so later, the Moody family moved its permanent residence from Cranford, New Jersey, to 324 West 103rd Street in Manhattan.

CHAPTER FOUR

FOUNDED TO ENDURE

Moody's Investors Service (1914–1928)



MOODY'S INVESTORS SERVICE, INC. was established without fanfare on July 1, 1914. It simply involved changing a few letters in the name of the existing company, Moody's Investment Service (which Moody had set up some nine months earlier). At the same time, Analyses Publishing was absorbed. Now, Moody's Analyses, the Weekly Letter and investment consulting services, and all else from Moody's would emanate from the new company.

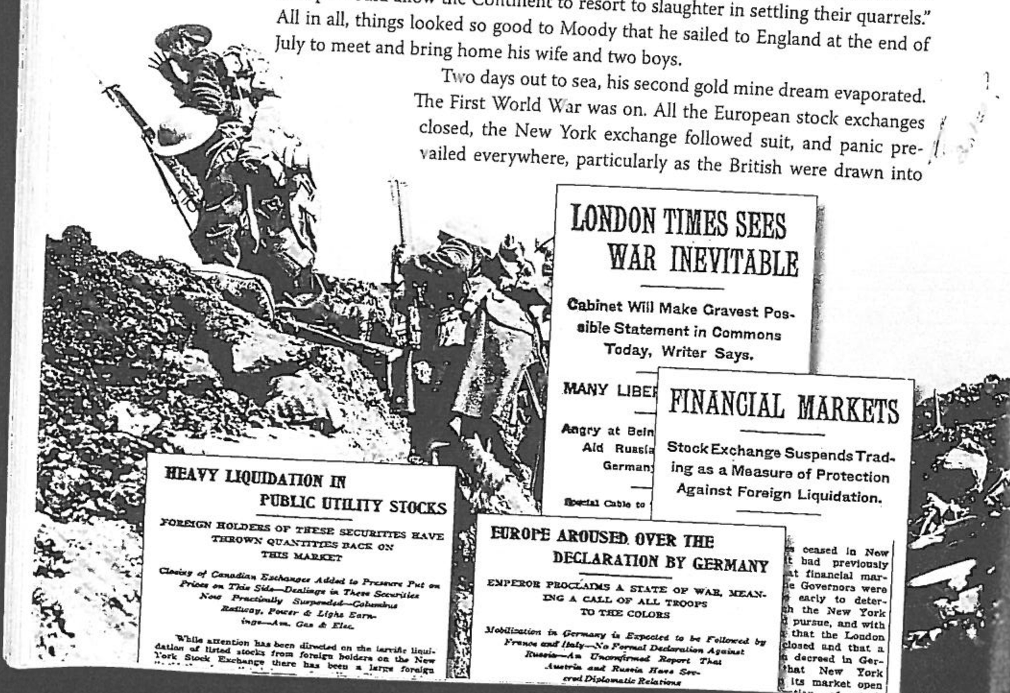
As Moody soon described it in an advertising tag line, the firm was "Founded to Endure and Investors Make Secure." Both claims turned out to be true. But for a few rather horrifying months, that was not the way things looked at all.

In the summer of 1914, the new corporation was sailing along smoothly. The stock market was in an "active and hopeful" mood, Moody's new Public Utilities and Industrials Manual was making a hit across the country, and new business was flowing in unusually fast. Both Moody and Louis Holschuh were sure they had another gold mine ahead.

The First World War was on. All the European stock exchanges closed and the New York exchange followed suit.

The situation in Europe was unsettled that year and there were rumors of possible war breaking out. But few Americans including Moody believed that "in this 'highly civilized age,' the enlightened statesmen of Europe would allow the Continent to resort to slaughter in settling their quarrels." All in all, things looked so good to Moody that he sailed to England at the end of July to meet and bring home his wife and two boys.

Two days out to sea, his second gold mine dream evaporated. The First World War was on. All the European stock exchanges closed, the New York exchange followed suit, and panic prevailed everywhere, particularly as the British were drawn into



the war in early August. Moody wired Holschuh to slash payroll and expenses (which he did, drastically), and headed home.

Moody and Holschuh soon cut their salaries entirely, as Moody's Investors Service slowed to a standstill, with heavy cancellations. Still, Moody continued to mail the weekly service to all subscribers, cancelled or not.

"Everybody was bearish, including all the forecasters," Moody recalled. "Roger Babson said he was thinking of closing up for good; he wrote me in November that unless the Exchange opened soon I would lose my shirt if I kept going. Of course I put that down as a Babson trick."

In fact, having already sold his Stock and Bond Card System to Luther Blake, 1914 was the year Babson sold his interest in Moody Manual Company to Roy W. Porter.

CONTRARIAN FORECAST FOR 1915

Babson and all the rest of the prophets were sure that if the war went on for long, 1915 would be a year of chaos. Moody thought otherwise.

Babson and all the rest of the prophets were sure that if the war went on for long, 1915 would be a year of chaos. Moody thought otherwise.

Moody and Augustin Ferrin, editor of *Moody's Magazine*, had done research to show why bonds were likely to be a good investment for 1915. Looking back at the effect of the U.S. Civil War and the Franco-Prussian War on bond prices, they came to a sobering conclusion for those in the war torn areas, but a brighter outlook for outside bond investors. Obviously, they argued, the destruction and impoverishment caused by war tends to lower per capita consumption. But that, in turn, lowers commodity prices, thereby moderating inflation expectations and interest rates—and boosting bond prices. Ferrin published an article supporting that position in *Moody's Magazine*, excerpts from which ran in the *Wall Street Journal* in December.

For his part, Moody began to see an impending war boom for America, even if the United States were drawn into the war. He noted that England and France had begun placing immense orders in the U.S. for munitions and other war materiel beginning in October. At the same time, foreign exchange had swung in favor of the dollar and large shipments of gold from Europe were underway.

Moody expected the war would go on for two or three years more, but he became increasingly certain that the war boom he expected would start the market up just as soon as trading resumed. "I was no economic expert, but I had a hunch," he said. Around the first of December, he began to draw up an elaborate, bullish "Forecast for 1915," which he planned to release when the stock market opened.

As it turned out, the New York Stock Exchange remained closed through the