



LOS ANGELES STOCK EXCHANGE
FOUNDED 1899

LOS ANGELES STOCK EXCHANGE

HISTORY ORGANIZATION OPERATION



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HISTORY

HAVING served a community that has grown from a small pueblo of some 50,000 inhabitants to the nation's fifth ranking city with a population of over 1,327,000, the Los Angeles Stock Exchange today stands among the major exchanges of the country as a market place for the purchase and sale of securities.

The need for a market place to mobilize the capital necessary to finance the early enterprises of Southern California was evidenced during the time of the real estate and mining booms near the end of the nineteenth century. Numerous attempts to provide the community with an organized securities market for the purchase and sale of stocks and bonds were made in the '90s. Although serving a purpose during boom periods, sufficient volume of transactions following such period did not exist in a city having less than fifty thousand population and the markets established during these times were short lived.

Following the dying of interest in mining and real estate, the years 1899-1900 saw the first major movement toward the development of what is today one of California's greatest resources—Oil.

On December 7, 1899, a group of the most prominent oil men in the State met to organize an Exchange under the name Los Angeles Oil Exchange to promote the oil industry, induce the investment of capital in oil properties and provide a market place for petroleum securities. The group conducted weekly meetings and, in addition to the sale of securities, actual transfers of oil were allowed over the board. It was thought by this means the consumer would be brought in close touch with the producer and prices fixed on a more

LOS ANGELES STOCK EXCHANGE

"an institution founded on integrity, created for the economic welfare of the community, state and nation, and dedicated to the service of all who seek an open market for the interchange of securities."

stable basis. The first trading session of the Los Angeles Oil Exchange was conducted on February 1, 1900, in a room on the ground floor of the Yosemite Building, 115 South Broadway. On December 23, 1900, members of the Exchange recognized the economic rule governing the existence of specialized markets by broadening the scope of service to include the issues of other forms of industry and changed the name of the market to the Los Angeles Stock Exchange.

An interesting commentary on the scope of financial operations in Los Angeles in 1900 as compared to their magnitude of later years is furnished by the fact that Union Oil Company at that time had fifty thousand shares outstanding with a total market value of \$2,750,000. At present Union Oil Company has over four and a half million shares outstanding valued at over \$87,000,000 in addition to bonds of \$18,026,500 face value. In the same year, Southern California Edison Company reported total assets of \$2,499,618 as against a present total in excess of \$390,000,000.

With but nineteen issues having a value of \$11,000,000 listed at the close of 1900, issues were steadily added until at the present time there are 136 fully listed issues which have a total market value in excess of \$4,800,000,000. Volume of trading grew from 2,250,000 shares having a value of slightly more than \$1,000,000 for the year 1900 to a peak of 49,400,000 shares in 1928 having a market value of approximately \$1,000,000,000. The valuation of \$62,049,564 for the 6,833,944 shares traded on the Los Angeles Stock Exchange in 1938 placed the Exchange as seventh in size among the securities exchanges in the nation.

From an agricultural background and the development of its natural resources, it was not long before the potentialities of a great industrial center were recognized and today Southern California plays a prominent part in many of the

nation's industries. In the period 1919 to 1933 Los Angeles County rose from twenty-seventh to sixth among the 3,072 counties of the United States in the value of manufactured products. As a manufacturing center alone, Los Angeles County ranks first in oil refining, first in motion picture production, first in airplane manufacture, second in automobile assembly, second in the manufacture of tires, third in furniture manufacture and fourth in the manufacture of women's clothing. Many corporations which have gained international prominence both in size and scope of operations have had their beginning on the Los Angeles Stock Exchange.

On the Exchange are listed and registered, as provided by the Securities Exchange Act of 1934, 136 issues of 108 local and nationally known corporations, the majority of which are engaged in the various businesses and industries making up the economic and social life of the Pacific Coast. In addition, the stocks of 57 other nationally known corporations are traded on the Exchange under provisions of the Securities Exchange Act which is termed "admitted to unlisted trading privileges". Although the companies whose stocks are in this group are registered on Eastern Exchanges, their scope of activity is nationwide and, through operation of branches in this area, has become an integral part of Southern California industry and their securities the medium of investment of countless investors in this area.

The development of the Exchange has kept pace with the growth of the community as well as with the changing economic conditions and in its present building, erected in 1930, it stands second to none in the facilities offered to carry out its functions and the rules and regulations it maintains in the interest of the investing public.

ORGANIZATION

THE Los Angeles Stock Exchange, registered as a national securities exchange, is a non-profit, voluntary association of 75 members, operating under a Constitution and set of Governing Board Rules. The object of the Exchange as provided by its constitution is to "furnish Exchange rooms and other facilities for the convenient transaction of their business by its members, to maintain high standards of commercial honor and integrity among its members and to promote and inculcate just and equitable principles of trade and business".

As an organization, the Exchange plays no part in determining the price at which transactions occur and derives no revenue or commissions in connection with the execution of the orders by its members for their customers.

Its Constitution, By-Laws and Governing Board Rules deal with every phase of Exchange operation and brokerage procedure and each member, by signing the Constitution, binds himself, as well as the firm he represents, to abide by all such rules and regulations, infractions of which would cause fine, suspension or expulsion.

To conduct Exchange business and operations revenue is derived from monthly dues paid by members with additional amounts resulting from special fees such as listing fees, membership transfer fees and others.

Control of the Exchange is vested in a Governing Board consisting of nine members elected from among and by the membership. Officers are elected by the Governors from among their group under which the executive staff works to carry on the various activities of the Exchange and detail of operation. Officers, Governing Board and committee

members serve without compensation and devote freely of their time to Exchange government and policies.

As the controlling body, the Governing Board is aided by special standing committees, appointed to consider various phases of operations and to recommend appropriate action for adoption. Such standing committees, appointed by the Governing Board, are headed by a Board member as chairman. These committees derive their names from the particular phase of operation with which they deal, such as: Admission, Arbitration, Auditing, Business Conduct, Clearing House, Floor Trading, Finance, Quotations and Commissions, Stock List and others. Functions of many of these committees are not confined merely to the details of the Exchange itself, but extend to the examination and supervision of affairs of member firms and their dealings with the investing public.

In addition to prescribed rules governing methods and procedures, the Constitution of the Exchange provides that any member adjudged guilty of conduct or proceedings inconsistent with just and equitable principles of trade shall be expelled, suspended or otherwise disciplined as the Governing Board may determine.

To be eligible for membership an applicant must be at least twenty-one years of age, a citizen of the United States, have a broker's license issued by the Commissioner of Corporations of the State of California, must be of good character with a good business background and must meet certain financial requirements. He must be approved by the Admissions Committee, Auditing Committee and Governing Board before being admitted to membership; his business methods and financial position are thereafter subject to examination by the various committees and a traveling auditor, employed by the Exchange, whose entire time is

devoted to reviewing the affairs of members. Periodic audits and questionnaires are required to be submitted by members as a further check against violations and to insure their maintaining the financial position required by the Auditing Committee.

Although the Exchange in no way controls the prices at which transactions occur nor does it in any way guarantee the intrinsic worth of any of its listed securities, careful consideration is given each security before it is admitted to trading. Sufficient information is required to be furnished by a corporation applying to list its securities in order that it is definitely established that the corporation is a going concern, engaged in a lawful business, legally organized and with its security sufficiently distributed to insure a free and open market.

The Stock List Committee or the Governing Board does not attempt to determine the merits of a corporation from the standpoint of an investment, but does require information as to the financial affairs, background and management before listing of the security is approved. Periodic reports and audits, required to be filed by listed companies, are available for inspection by those of the investing public who care to take advantage of the information as an aid in determining security values.

To maintain a convenient and efficient market place for the purchase or sale of these securities, where prices and quotations are given adequate publicity to safeguard the interest of both buyer and seller, where definite brokerage fees are established through fixed commission rates, where rules and regulations are enforced in the conduct of business to protect the investor is the aim and purpose of the Los Angeles Stock Exchange.

OPERATION

To illustrate the operation and mechanics of the Exchange let us assume that a certain Mr. Jones is interested in purchasing some stock with the thought of selling it at a later date at a profit or of holding it as an investment to obtain returns through dividends.

After analyzing various issues through statistical reports and observing the market action of various stocks on the Exchange through prices published daily in the newspapers, suppose he decides to buy 100 shares of Union Oil Company stock which is trading around \$20.00. Mr. Jones, if he is not already acquainted with a broker, calls at the office of a member firm telling them that he wishes to buy 100 shares of Union Oil and whether he wishes to pay cash or buy on margin.

The customers' man at the member firm's office contacts the firm's representative on the Exchange to determine the existing market for Union Oil, and assuming that he finds the quotation to be $20\frac{1}{8}$ at $20\frac{1}{4}$, which means that there is an existing bid on the floor of the Exchange of $20\frac{1}{8}$ (\$20.12 $\frac{1}{2}$ a share) and stock is being offered for sale at $20\frac{1}{4}$ (\$20.25 a share), Mr. Jones may enter his order either at "the market" or at a "limit price". A "market order" is to purchase or sell at the best price available and a "limit order" is for a specified price.

Suppose Mr. Jones decides to enter his order to buy "at the market". The customers' man records the order on an order form and hands it to the order department. The order clerk immediately flicks a key and, over a private telephone wire, calls the order to the firm's representative on the floor of the Exchange.

Let us turn now to the scene on the floor of the Exchange. Around a large trading room are 64 booths, each occupied by the representatives of various member firms and each equipped with a turret board from which private lines connect with different departments of the firm's office or the offices of other brokers for whom the firm may be doing business. It is in one of these booths that Mr. Jones' order is received.

On receipt of the order the firm's floor representative hurries to the particular post at which Union Oil is traded and probably on the way calls out, "What's Union Oil?". Each stock traded on the Exchange is assigned to one of the six posts at which members called "specialists" are stationed. In front of each post a defined area of the floor is known as the "trading sector". Assuming the bid or asked price has not changed since the customers' man received the report, representatives of the firms who have the orders to buy and sell Union Oil will be standing in the trading sector at the post. The one with the buying order calls out "20 $\frac{1}{8}$ bid" and the one with the selling order calls "at 20 $\frac{1}{4}$ ". If such orders had been entered with the specialist at the post, the specialist would have called out the bid or offering price. In certain instances the specialist handles the orders received by floor members or member firms' representatives.

Since it is not possible for the spread between the bid and offering price to be any closer, the trading differential being $\frac{1}{8}$, the man with Mr. Jones' order calls out "Take it" meaning that he buys the Union Oil stock offered at 20 $\frac{1}{4}$. Although no mention has been made of the number of shares, the number is 100 as that is the designated board lot or round lot in Union Oil, having been thus established by the Floor Trading Committee.

Had the order of Mr. Jones been at a "limit price", say \$20.00, which would have meant to buy at not above \$20.00, the floor operations would have been slightly changed. On finding that the bid price on Union Oil was 20 $\frac{1}{8}$, the floor man with Jones' order limited to 20 would have known that he could not buy stock at 20 until all orders to buy at 20 $\frac{1}{8}$ were filled and the stock offered down to 20. So, rather than stand in the trading sector waiting for such to happen and in order to protect the priority of his customer's order, he would have entered the order with the specialist. The specialist would have time-stamped the order and entered it in his record. If at any time later the stock had been offered at 20, the specialist would then have bought it. Should there have been another order to buy at 20 entered before Mr. Jones' order, Mr. Jones would have received the second lot offered at 20.

When Mr. Jones' order is executed, whether it has been a "market order" or a "limit order", the firm's floor representative goes back to his booth, calls the firm's order department to notify them of the execution and price. Immediately after the order is executed, an employee of the Exchange, stationed at the post, known as a reporter, notes the transaction on a slip of paper and sends it to the ticker booth in the center of the trading floor. From the ticker booth, the record of the transaction is broadcast to the board boy operating the quotation board and sent out over the ticker system, giving publicity to the transaction.

On the quotation board situated on one wall of the trading room are recorded under symbols for each stock, such as UCL for Union Oil, the transactions as well as the bid and asked price of every issue traded on the Exchange as a convenient record for the brokers on the floor. Subscribers to the ticker receive a printed record of each transaction as



TRADING FLOOR OF THE LOS ANGELES STOCK EXCHANGE

- A. Members' booths.
B. Specialists' posts.
C. Odd lot dealers' posts.
D. Trading sectors.
E. Ticker booth from which sales and quotations are disseminated to brokers' offices and ticker subscribers.
F. Boards on which sales and quotations are recorded.
G. Electrical call board for calling members and their floor representatives to their phones or booths.
H. Translux carrying continuous record of New York Stock Exchange transactions.
I. Visitors' gallery.

it occurs as well as all changes in the bid and offering prices of each stock.

On the following day Mr. Jones receives a written confirmation of the transaction from the member, stating that they have bought for his "account-and-risk" 100 shares of Union Oil stock, setting forth the date of purchase, price at which the stock was purchased and the amount of the brokerage fee or commission.

The record of Exchange transactions of the date of purchase, published by the various newspapers, gives Mr. Jones an absolute check on the price range of Union Oil on that day which assures him that his purchase was at the prevailing price of the day. The commission charged Mr. Jones as set forth in the confirmation is established by the Exchange and is evidence of the exact amount of fees the brokerage firm receives for handling the transaction.

On the second day following execution, the transaction is settled through the Clearing Department of the Exchange. The selling broker delivers to the Clearing House a stock certificate for 100 shares of Union Oil and Mr. Jones' broker delivers a check for the purchase price of the stock. The Clearing Department of the Exchange is the medium through which all stock certificates and money pass in final settlement of transactions which have been handled by members on the floor.

The member firm then carries out Mr. Jones' wishes with respect to the certificate for the 100 shares of Union Oil. If Mr. Jones paid cash for the stock, he may instruct that it be transferred in his name and take possession of the new certificate or he may instruct that the broker hold the stock in "safekeeping" for him. Had Mr. Jones bought "on margin", that is, made only a partial payment for the

stock, the broker would hold the stock certificate as security for the balance owed by Mr. Jones.

Let us assume now that Mr. Jones did not want to buy a full round lot, 100 shares, of Union Oil but that he wanted, for example, 37 shares. The representative of Mr. Jones' broker on the floor would have taken the order direct to the "odd lot dealer" in Union Oil. Various issues are assigned to the three odd lot dealers on the floor who are Exchange members engaged in the buying and selling of odd lots in the stocks that have been assigned to them. The odd lot dealers operate on an established differential, usually $\frac{1}{8}$ of a point, that is, they will buy odd lots at $\frac{1}{8}$ under or sell at $\frac{1}{8}$ above the prevailing market price of the stock.

Suppose Mr. Jones' order for 37 shares of Union Oil had been to buy "at the market". The odd lot dealer would have entered the order in his record, making a notation of the exact time of its receipt, and waited for a transaction in a round lot of Union Oil to take place on the floor. The price at which the first round lot is executed after the odd lot dealer receives the order is the price to which the odd lot differential is added.

If after Mr. Jones' order had been entered with the odd lot dealer the price of the first round lot transaction of Union Oil was $20\frac{1}{4}$, the odd lot dealer would have sold the 37 shares at $20\frac{3}{8}$ to Mr. Jones' broker, who in turn would have reported the result of the transaction to Mr. Jones.

The various phases of the procedure in handling a transaction as shown in following Mr. Jones' order give some indication of the mechanics of the operations on the Exchange, every detail of which is covered by specific rules and regulations. Contrast the scene on the floor of the Exchange today with a visualization of a scene of some forty

years ago when actual transfers of oil took place as well as oil securities and consider the development made from that meager beginning to the highly perfected and regulated organization of today.

Having constantly broadened its scope of operations and perfected its mechanism to meet the demands placed upon it by a growing community, the Los Angeles Stock Exchange stands ready to continue its service in assisting Los Angeles as well as Southern California to assume the place it is destined to reach with the development of the Pacific Coast.



LOS ANGELES STOCK EXCHANGE

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