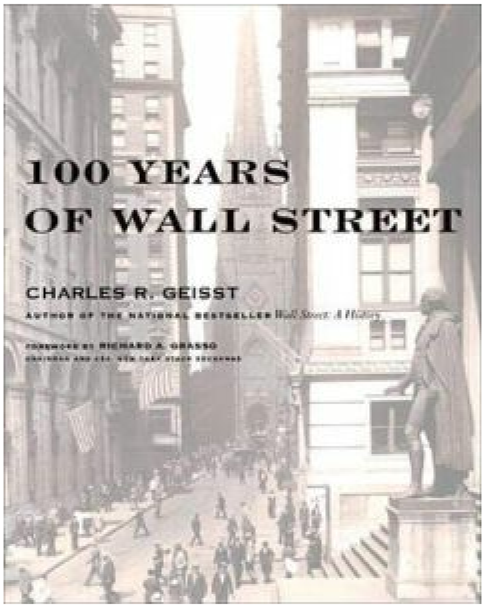

Book 100 Years of Wall Street

Charles R. Geisst
McGraw-Hill, 2000

Recommendation

Charles R. Geisst's enjoyable book chronicles Wall Street in the 20th century. He effectively captures the feel of the various boom and bust periods. The clear, informative text is supplemented with incredible black and white photographs of each period's key events and people, making it very evocative and intriguing. *BooksInShort* recommends this book to anyone – not only someone in business – who wants to learn about Wall Street's history. It would make a great gift for anyone who works in the financial industry or for a young person who is interested in how money works.

Take-Aways

- Equity investing is a hallmark of the American investor.
- The introduction of new technologies at the start of the century (the telephone) and at the end of the century (the Internet) intrigued investors and attracted more money into the financial markets.
- We tend to forget that prior to the crash of 1929, Wall Street was an unregulated market.
- The bubbles in the 1920s and the 1950s were different. In the 1920s, the bubble was speculative; in the 1950s, the bubble was based upon business fundamentals.
- The Dow Jones Industrial Average started with twelve companies. Of the original twelve, only General Electric is still in existence today.
- The 1920s were an age of speculation. Charles Ponzi, the father of the "Ponzi scheme," made millions selling bogus real estate.
- The public was so enamoured of Wall Street that the gallery of the New York Stock Exchange (NYSE) became a tourist destination.
- By sheer chance, Winston Churchill was in the gallery of the NYSE on October 24, 1929, the day cited as the start of the crash of 1929.
- The Security and Exchange Commission was established in 1934.
- Many writers considered the 1980s the decade of greed, but it was also the decade of technology start-ups including Microsoft, Intel, and Compaq.

Summary

1900-1920 At the start of the twentieth century, the United States and Wall Street were optimistic. The country was emerging as a world leader in manufacturing, farming, and technological innovation. The Republican president, William McKinley, was sympathetic to big business. Following his assassination, Teddy Roosevelt assumed the presidency. Big mergers were taking place in the financial sectors. J.P. Morgan purchased Carnegie Steel from its founder and merged it with other companies to form U.S. Steel. The acquisition price, $500 million, stunned Wall Street. Morgan established American Telephone & Telegraph, the Northern Securities Company, and International Harvester. These enormous mergers set the tone for the rest of the twentieth century.

> “The stories coming from Wall Street would have made anyone envious. Tales of great wealth being amassed in little time lured many into thinking that the streets were paved with gold.”

While mergers represented the high end of Wall Street activity, small investors were subject to the play of the "Bulls and Bears." Bulls were depicted as investors who would drive up the price of stocks; bears were depicted as investors who would drive them down. Fights between bull and bear investors often set off panics that particularly hurt small investors. Two major stock market panics occurred during this period. The first happened in 1903 after the creation of U.S. Steel. The market recovered fast and no long-term damage was done. The second happened in 1907 and almost caused widespread failure of banks and brokers. Catastrophe was averted when J.P. Morgan led the effort to bail out several of these institutions. His efforts, in conjunction with the U.S. Treasury, also enabled the NYSE to remain open.

> “During the early years of the depression, the markets recorded their worst performances in decades. The NYSE continued in a free fall. From a high of 350 in 1929, the Dow dropped like a stone to only 41 in 1932.”

The Federal government was also active during this time. The Roosevelt administration filed suit against Standard Oil and American Tobacco under anti-monopoly statutes. In 1911, the Supreme Court tried to break up these companies. The U.S Congress investigated Wall Street and its bankers in 1912. Shortly after, by establishing the Federal Reserve central bank system, Congress responded to charges that large banks were controlling the financial markets. Congress also investigated stock market practices. During this time, unregulated brokers called "bucket shops" preyed upon small investors. The Congressional hearings were a first attempt to regulate this and other questionable market practices.

> “The story of Wall Street in the twentieth century is the story of the...investing public and of the confidence in equity investing that had made [the U.S] the world’s largest nation of shareholders.”

The first national income tax was introduced in 1913. World War I broke out in 1914, and the stock market closed for the last quarter of 1914 in response, even though the United States did not enter the war until 1917. Toward the end of the decade, a worldwide influenza epidemic killed almost twenty million people. Finally, in 1919 the Supreme Court, in a reversal of its earlier rulings, failed to break up U.S. Steel. And, the Dow Twelve passed the 100 level for only the third time since 1906.

The Roaring Twenties

The post-war recession lasted until 1921. Post-war consumer spending was high. Brokers responded to this wave of consumerism by expanding their investment marketing efforts. Large banks purchased local brokers. City National Bank, the predecessor to Citibank, opened hundreds of securities branches, all connected with miles of communication wires. The stock market boom was well underway.

> “The changes that Wall Street witnessed during the twentieth century were inconceivable in 1900.”

"Wall Street became a more sophisticated place in the 1920s." The New York curb exchange moved indoors in 1921 in an attempt to compete with the NYSE. The over-the-counter market, the predecessor to NASDAQ, organized at the same time. The Dow Jones Industrial Average expanded to thirty stocks adding among others, the automotive companies, Nash, Chrysler, and Mack Trucks.

> “As Microsoft’s stock continued to rise in the 1990s, so too did the fortune of its chairman, Bill Gates. By the end of the decade, his holdings were worth somewhere between $70 billion and $80 billion. That amount would put him on equal footing with John D. Rockefeller, in adjusted terms.”

In the twenties, professional traders led heavy speculation and formed investment groups to manipulate stocks. Billy Durant, the founder of General Motors who lost control of the company, was the best known. He allegedly made more than $100 million within a few years of forming his investment group. Michael Meehan, another well-known speculator, claimed to net more than five million dollars for his group after running up the price of RCA stock.

> “Although no one could foresee the momentous changes that the economy, and Wall Street, would witness over the next 100 years, the century began very much as it would eventually end, in the midst of a tremendous merger boom.”

At the beginning of 1929, the market was still moving upward. The market was so omnipresent in people’s minds that the visitor’s gallery started filling with tourists. The bubble burst on October 24, 1929, when the "NYSE lost almost twelve percent of its value on turnover of almost twelve million shares." Buy the end of the year, the Dow 30 had lost one-third of its value. Thereafter, banks failed and investor margin accounts were called, resulting in a huge increase in personal bankruptcies.

The 1930s and 1940s

The crash and the ensuing depression created national despair. When people learned that short sellers were making money while the market continued to decline, they began to focus on Wall Street as the cause of the problem. Franklin Delano Roosevelt’s election in 1932 initiated a series of congressional hearings and legislative controls over the financial community. Legislation followed. In 1933, Congress passed the Securities Act, which required registration of financial securities and the Glass-Steagall Act which separated commercial and investment banking. In 1934 Congress passed the Securities Exchange Act which established the government’s financial regulatory body, the Security and Exchange Commission (SEC). The SEC pressed an openly hostile Wall Street for reforms including the organization of member firms. In 1937, Congress recognized the newly formed National Association of Securities Dealers trade group. Despite these efforts, the market dropped another hundred points in early 1938. The decade ended with the government believing "Wall Street and big business were responsible for the crash and the inability of the economy to pull itself out of the depression."

> “The curb market flourished outdoors until 1921 when it finally moved indoors to its home on Trinity Place, several blocks from the New York Stock Exchange. It finally changed its name to the American Stock Exchange in 1951.”

World War II marked the 1940s. The government’s primary concern was financing the war effort. The market could not raise the $59 billion needed. It had been weakened by the government’s distrust during the previous decade and by, therefore, being excluded from New Deal financing. Instead, the government sold Treasury bonds directly to the public. The market was stable during the war. The Dow Jones Industrial Average rose from 150 in 1940 to 200 by the end of 1945. Business did not return to normal until the Japanese surrendered. The peacetime economy blossomed again by 1946. The economy started to accelerate with a post-war consumer boom.

The 1950s and 1960s

The suburban lifestyle formed the post-war U.S. landscape. Consumers spent more on housing, automobiles, and consumer goods than ever. The country started building the national highway system. "Automobile manufacturers, defense contractors, computer companies, and pharmaceutical and technology companies became the new blue chips." The formation of conglomerates was the big business news. Mergers proceeded at the highest rate since the 1920s. Companies such as ITT, Gulf and Western, and LTV led the merger and acquisition wave, which gripped the market. Companies referred to unwelcome take over attempts as "hostile bids."

> “The rising market created many 401K millionaires, those whose self-directed pension plans appreciated at double-digit rates of growth. ”

Investment and brokerage houses increased dramatically as the middle class investor returned to the stock market. Investment advice shifted from "tips" to solid information featuring the investment adviser as equity analyst. Activity in the markets was so great at times that the market had to declare "holidays" to allow back-office record keeping to catch up with orders The Curb Exchange officially changed its name to the American Stock Exchange in 1953. The Dow tripled in value by the end of the 1950s and stopped just short of 1000 by the end of the 1960s.

The 1970s and the 1980s

The 1970s and the 1980s were decades of contrast. The 1970s were marked by economic and political turmoil while the 1980s were known for rapid expansion and growth. The "Dow hit a thou" was the buzzword of 1972. The Dow reached 1,100 before it collapsed in 1973-74. Oil prices, inflation, and President Richard Nixon's resignation sent it lower. By the end of 1974, the Dow fell below 600. A rally occurred in 1975 and 1976 but, by the end of 1977, the Dow was back down to below 800. The country was in the grips of "stagflation."

> "The surging stock market spilled over into plain old-fashioned conspicuous consumption by the mid-1990s. Several steak houses frequented by the denizens of Wall Street reported brisk sales of bottles of French wine of up to $2,000 per bottle."

While the market retrenched, Wall Street innovated and reformed. In 1971, NASDAQ introduced an automated quotations system. This computerized system gave NASDAQ a stronger competitive position against the NYSE. In 1975, the NYSE reformed its negotiated commission rates. This action gave lower rates to the NYSE's best customers. Discount brokerage houses offered these lower rates to their retail customers, sparking growth in discount brokerage houses and the number of small investors - both indirect beneficiaries of the NYSE's decision to lower commission rates for their best customers.

The 1980s saw one of the greatest Bull runs in history, from 1982 until the end of the decade. Three distinct events caused this rise in the market: Ronald Reagan's election in 1980, Congress' cut in capital gains taxes, and the Federal Reserve's lowering of interest rates. Mergers and acquisitions proceeded at a furious pace. The Junk Bond was the financial tool used to finance these mergers and acquisitions with Michael Milken declared the king of this investment strategy. Milken's annual Predator's Ball, where "investment bankers, politicians and investors came together for a few days of frolicking" came to symbolize the euphoria of wealth creation in the 1980s. Hollywood also captured this mood in a movie called Wall Street, when the central character, declared "greed is good."

The other side of the 1980s was reflected in the growth of American technology businesses. The 1980s saw the emergence of small technology companies, such as Microsoft, Compaq and Intel, which would grow significantly over time.

By the end of the decade, however, the market crashed. On October 19, 1987, the Dow Jones Industrial Average lost more than twenty percent of its value in one day. Several analysts claimed that the inability of back rooms to process orders in a downward market exacerbated the slide. A Presidential Commission recommended the introduction of specified stock activity cut off points, called circuit breakers, which "would mandate an automatic closing of the NYSE until the problems could be sorted out." During this time, the junk bond market crashed leading to the savings and loan crises, which eventually cost US taxpayers $125 billion. Ivan Boesky and Michael Milken were convicted of securities violations. Despite all this, the market recovered and rebounded.

The 1990s

The 1990s began with a short recession but then climbed dramatically with "averages quadrupling within the next nine years." Bank, railroad, and utility deregulation marked the decade's first half. Commercial banks were permitted to acquire investment banks. Wall Street firms were acquired, expanded, or taken public. Internet technology fostered new trading techniques. The day trader went from being professional traders to anyone with a discount brokerage account. Mutual funds deposits exploded. By 1995 the Dow was at 5,000; by 1999 the DOW was over 10,000. The century closed with the "greatest economic boom ever recorded" still going strong.

About the Author

Charles R. Geisst's previous book, *Wall Street: A History*, was a *New York Times* Business Bestseller in 1977. It was a selection of the History Book Club and the Book-of-the Month Club International. Geisst, formerly a capital markets analyst and investment banker in London, is also an experienced financial consultant for banks. The author of eleven other books, he has also published widely in professional journals and news magazines.
