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La Salle Streeter

Edward C. George of Chicago, vice president and a director of Harriman Ripley & Co. Incorporated, will be Chairman of the Board of Governors of the Association in 1954. He was chosen to head the slate of new officers by the seven retiring Governors, including Carl Stolle of New York, whom George succeeds.

Other officers, who will take up their new assignments next January, are:

Vice Chairmen

Murray Ward of Los Angeles, president of Hill Richards & Co., and

George Geyer of New York, president of Geyer & Co., Inc.

Treasurer

Harold C. Patterson of Washington, D. C., partner, Auchincloss, Parker & Redpath

Executive Director

Wallace H. Fulton, Washington, D. C.

"Eddy" George is not just a native Chicagoan. He was born on the same LaSalle Street on which he has spent his business life. The Field Building, where Harriman Ripley has its Chicago office, is two miles from the house, still standing, where "Eddy" was born 56 years ago.

After discharge from the Army in World War I as a 2nd lieutenant and after getting his degree from Northwestern University, he went to work for Lee

VICE CHAIRMAN



Murray Ward

CHAIRMAN



Edward C. George

Higginson & Company in 1919. In 1932, he left to go to Lawrence Stern & Co. He joined his present firm in 1932, being made a vice president in 1949 and a director one year later.

During 1953, the Chairman-to-be served as head of the National Business Conduct Committee of the Board of Governors. All complaints handled by the fourteen District Committees are reviewed by that body.

Before coming to the Board, "Eddy" was on the District Committee (Illinois, Indiana, Iowa, Michigan, Nebraska and Wisconsin) for three years, one as its Chairman.

The following is the list of new Governors, chosen by members of the several Districts;

G. Price Crane, Arnold & Crane, New Orleans.

Arnold Grunigen, Jr., J. Barth & Co., San Francisco.

Frank H. Hunter, McKelvy & Company, Pittsburgh.

George A. Newton, G. H. Walker & Co., St. Louis.

Earl M. Scanlan, Earl M. Scanlan & Co., Denver.

Oliver J. Troster, Troster, Singer & Co., New York.

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Complaint Case

"It shall be deemed conduct inconsistent with just and equitable principles of trade for a member to enter into any transaction with a customer in any security at any price not reasonably related to the current market price of the security."

The above is an interpretation, adopted by the Board of Governors in October, 1943, of the blanket "commercial honor and just and equitable principles of trade" rule binding on members.

It was one of the bases of a recent complaint against a member and its officers which resulted in these penalties:

1. The member firm was fined \$5,000;
2. Two officers had their registrations with the Association revoked and they were fined \$1,500 and \$1,000 respectively;
3. Two other officers were fined \$2,000 each;
4. One officer was given a two-year suspension of his registration and fined \$2,500.

In addition, the firm was assessed \$1,000 against the costs of the proceedings.

The original complaint against the member and its registered representatives involved alleged excessive mark-ups in over 80 sales to customers and unfair prices in 54 purchases from customers.

(continued on page 3, column 2)

VICE CHAIRMAN



George Geyer

Advice to Salesmen

"As soon as enough people have confidence that you know what you are talking about, you are on the road to success."

In that one sentence did H. P. Schlemmer, Sales Manager and General Partner of Schwabacher & Co., San Francisco, sum up his view of what it takes to be a successful securities salesman. He was addressing a meeting of the San Francisco "Street Club", and said his comments were based upon 30 years' observations of men and their progress in the business. Mr. Schlemmer is a Governor of the Association.

"Next to his family, nothing is materially closer to anyone than his money and the handling of it," Mr. Schlemmer said. "The primary thing is the establishment of *confidence*—that you know what you are talking about. If you don't know the answer to a question, don't try to come up with one. Get the information from sources all of us have access to and then give it to the customer."

His best advice for old age security for stock and bond salesmen: *one new prospect per day*. He also said it was necessary for a salesman to make at least ten face-to-face calls a week; call on five or more dormant accounts each day; follow-up promotional mailings with personal calls. Burning a little night-time oil on after-supper calls is also a good habit to get into, the speaker said.

"It is my personal belief that the securities business offers outstanding opportunities to those who want to work as salesmen," he said. "This business, at the present time, has too many old men in it.

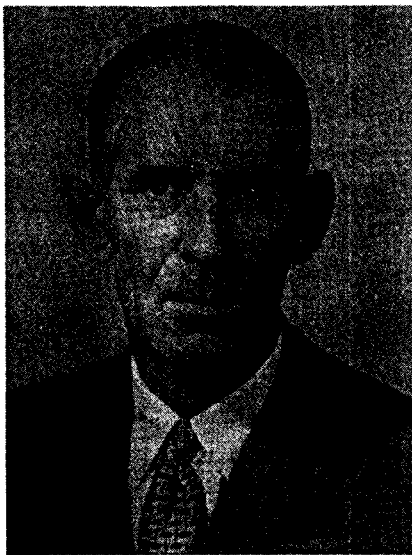
"Your volume of sales will be in direct ratio with the number of hours per day or week you spend in the presence of your prospects. For the number of hours you work and for the time you spend with your prospects, you are in one of the highest paid professions in the United States.

"Look the part of the prosperous salesman! One very important item — don't talk too much. It is your prospect's money — let him do some talking and when you talk, do it in a pleasing voice and slowly, as our business is not understood too well by many people.

"Most salesmen are fair with themselves and a suggestion I have for each is to take self-inventory at least once a week. You will then know how much time you are wasting and whether your plus signs out-number your minus signs. If you do this regularly, you will profit by it — make all the alibis you want, but gross doesn't come in the office and knock you down."

On the subject of drinking during busi-

TREASURER

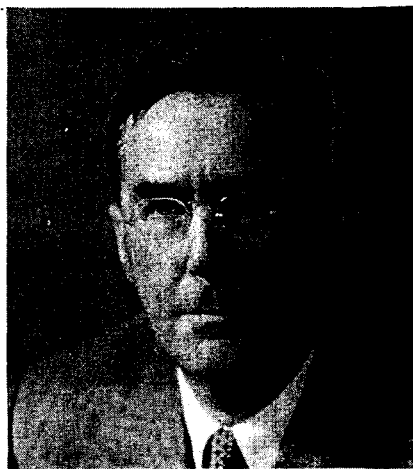


Harold C. Patterson

ness hours, which is a dangerous practice and "often results in disaster" to customer relations, Mr. Schlemmer observed: "There is not enough chlorophyll, chewing gum and tablets made to offset any liquor breath that you go back to the office with." "Liquor and securities," he said, "just do not mix."

Many salesmen, the speaker said, "over-do the rubber-stamping of their names on circulars", adding: "as cold an approach to a client as possible" is the multigraphed or stencilled letter in an addressograph-plated envelope. "My suggestion is to take a minute or two and write a personal note on the circular or attach your card with some comment on it — you'll find the reception of your mailing piece will improve 100%."

EXECUTIVE DIRECTOR



Wallace H. Fulton

Wharton Study

While small local issues represent a significant proportion of over-the-counter activity, the preponderance of trading on this market, as on exchanges, is in the larger issues. So concludes a new study prepared by the Securities Research Unit of the University of Pennsylvania under the title, *Characteristics of Transactions on Over-the-Counter Markets*.

Morris Hamburg, Stanley Schor, and Willis Winn, members of the Wharton School staff and co-authors of the fourth monograph in the series developed under a grant from the Merrill Foundation for Advancement of Financial Knowledge, base their study on detailed analysis of many thousands of individual over-the-counter transactions.

According to the authors, commercial banks account for almost one-half of the public customer business for all types of securities combined. In common stock, however, the study reports that individuals account for the bulk of the over-the-counter activity. It states that the public customer composition of common stock transactions on the over-the-counter market differs little from that evidenced in exchange trading.

Any change in an outstanding issue or in its market provides a spur to trading in the issue. Included among the factors which tend to increase market activity are stock dividends and stock splits; new and secondary offerings; and mergers and consolidations.

Unlisted issues of common stock, the monograph points out, have a turnover on the over-the-counter market almost as rapid as that of listed issues on the New York Stock Exchange. Over-the-counter transactions in listed issues represent a very significant proportion of the activity in all types of bonds and preferreds. Even in common stock, listed issues account for one-fifth of the total value of over-the-counter transactions during the period covered by the study.

The authors found marked evidences of regionalism in over-the-counter transactions. A high degree of concentration of over-the-counter activity is disclosed in securities whose issuers are located in the same area as both the broker-dealer intermediary and the public customer. Regional differences are pronounced in the proportion of over-the-counter business conducted on a dealer or principal basis.

Transactions handled by broker-dealers on a principal basis represent the bulk of the activity in all types of securities. Approximately three-quarters of the trading in common stock alone, the study reveals, are effected on a dealer basis. Brokerage transactions in the over-the-

counter market represent a larger proportion of the activity in corporate bonds than in any other class of securities.

Other topics covered by the study include the price and size characteristics of over-the-counter transactions, the turnover of dealer inventories, and variations in the activity of firms of various sizes.

Copies of the fourth monograph are available at \$1.25 per copy on request to the University of Pennsylvania Press, 3436 Walnut Street, Philadelphia 4.

Legislation

It is still too early to appraise the opportunity the securities business may have in the next session of Congress to obtain desired amendments of the Securities Acts. However, there have been many intra-business conferences in recent months, as well as discussions with the SEC, with each segment of the business indicating its primary objectives.

The NASD has prepared a number of suggestions having to do with Section 5 and related sections of the Securities Act of 1933. The substance of the NASD proposal would:

1. permit oral offers or solicitations of offers to buy, both during the waiting period and after effectiveness, but prohibit any sale until after effectiveness. All oral representations would be subject to Section 12 (material mis-statements or omissions) and Section 17 (fraud) liabilities.

2. permit written offers or the solicitation of offers to buy or the dissemination of other written material prepared by the sender, both during waiting period and after effectiveness. All such written offers, etc., would be subject to Sections 12 and 17 liabilities and each writing would be required to contain a "Notice of Availability of a Prospectus."

3. provide for the dissemination of a statutory prospectus (complete except for price and related data) which, at the option of the manager or issuer, could be sent to dealers, customers, or others immediately after filing or after correction to reflect any deficiencies.

4. contemplate that the Commission, through its powers to accelerate the effectiveness of a registration statement, would not allow a registration statement to become effective until the manager or issuer had made a showing that statutory prospectuses had been sent to contemplated members of the selling group in sufficient quantity and time to enable dealers to fill requests for same before effectiveness.

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Interpositioning

"The integrity of the industry can be maintained only if the fundamental principle [is observed] that a customer should at all times get the best available price which can reasonably be obtained for him. Members [of NASD] must at all times be alert to assure that traders are using their best efforts to comply with this principle."

The above is an extract from an opinion of a District Business Conduct Committee. The opinion grew out of activities of several traders of a member who were charged with "interpositioning" — a practice whereby a trader intentionally interposes a second firm between his own customer and the ultimate buyer or seller. Involved also were implications of favoritism on the part of the several traders as to firms with which they dealt, particularly to "interpositioning".

Said the Business Conduct Committee: "Mere failure to get the best price or mere favoritism in and of themselves are not necessarily considered . . . wrongful . . ." The situation is different, though, the Committee found ". . . where there is a consistent course of conduct during which a trader is not getting the best available price, where he is favoring certain broker-dealers by assigning them a function which he himself should be performing, and where examination of the surrounding facts and circumstances indicates that this course of conduct is wilful and unjustifiable . . ."

As to member responsibility in such matters, the Committee said: "Standards of conduct in trading cannot be left solely to the good conscience of the individual trader."

COMPLAINT CASE

(cont'd. from P. 1)

The overwhelming proportion of these, at mark-ups and mark-downs in excess of 5% (one schedule of illustrative transactions set forth gross profits of from 8.1 to 11.8 per cent), was cited as one cause for the complaint. Other causes included evidence of secret profits; apparent kick-backs to an officer of a company, the stock of which was being traded and retailed by the firm; gross neglect to supervise transactions of the member's personnel.

The Board of Governors, in reviewing the case, also took cognizance, in arriving at the penalties imposed, of the fact that the District Business Conduct Committee had on three earlier occasions cautioned the firm about its practices as divulged in examinations made at various times.

Said the Board in its conclusions on the case:

"The question of fairness in transactions with customers looms large in this proceeding. The industry, through this Association, has set up certain standards by which members and District Business Conduct Committees are to be guided in determining what is fair-pricing and what is over-reaching. One of these standards and guides of evaluation is the so-called 5% policy. This policy is consistent with the basic rules of the Association, all of which relate to proper conduct by brokers and dealers with respect to their actions and are for the protection of investors.

"The Board of Governors never intended this 5% philosophy to be a fixed mathematical rule or line of demarcation, one side of which was fair and the other side clearly unfair. By intention, latitude was left to the judgment of the District Business Conduct Committees to administer the policy in the light of all the cir-

cumstances relating to the particular transactions involved.

"That policy was intended and has since been administered as a *guide* . . . with respect to fairness of pricing in dealing with customers.

"In passing on a case such as this, the Board of Governors must be mindful that one of the major responsibilities of this Association is to protect the investing public against those in this business who are guilty — through cupidity or avarice or gross neglect of investor interest — of consistent, persistent and premeditated over-reaching.

"Close observation by all of our members of the standards adopted by the Association is necessary to continued confidence and respect of investors in the integrity and economic necessity of our business."

Break-Point Deal

A member recently notified the Association that the registration of one of its registered representatives should be terminated. The letter implied that abnormal circumstances prompted this termination notice. An examiner of the Association, therefore, made an investigation. An unusual series of events were uncovered, resulting in a complaint being filed by the District Business Conduct Committee having jurisdiction.

The hearing on the complaint produced these facts: the registered representative persuaded a customer of the firm, to whom he'd been assigned, to dispose of \$123,000 worth of listed and unlisted stocks; the representative gave his personal receipt for the securities; the securities were disposed of through a second member; an over-riding commission on the listed stocks of \$273.88 and a mark-up of \$76.00 on the "unlisted" were realized on these sales; through the second member the

proceeds were reinvested in several mutual funds in the following manner:

3,860 shares	\$24,819.80
5,846 shares	24,611.66
4,444 shares	24,619.76
2,865 shares	24,610.35
2,366 shares	24,677.38

or, in each case, a shade under the "break-point" where the sales charge is reduced.

Confirmations from the second member, covering the above mutual fund transactions, were dated December 2, 1952. On December 9, the first member sent his letter requesting termination of the registered representative's registration. The NASD inquiry got under way by a personal visit from the District Secretary on December 17. On December 23 the customer was advised by the firm that the transactions could be readjusted with certain benefits to them. The customer consenting, the amounts placed in four of the funds were increased to above \$25,000 in each case, permitting the customer to acquire several hundred additional shares, net, due to the saving from the readjustment to the lower sales charge applicable on transactions over \$25,000.

Throughout, it had been understood that the registered representative would be given the total commissions from the transactions — completed without the knowledge of his employer through a second member.

The decision in the case found "no question . . . but that, initially, there was an attempt made to take unfair advantage of the customer." The decision further found that the second member "used their membership to obtain a selling group agreement in order to carry out a transaction which [the registered representative] could not himself have consummated inasmuch as at the time he was not an employee [of the second member], was not registered as a broker/dealer, was not qualified to do business in the State and could not have an agreement with the mutual fund."

The decision further stated it was the Board of Governors' opinion that the mutual fund sponsor/underwriter "must bear a share of the responsibility for improper handling of these transactions . . ."

Penalties were imposed as follows:

The registered representative's registration was revoked and he was fined \$1,500.

The second member was fined \$2,500.

NASD News

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

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

LA SALLE STREETER

(*cont'd. from P. 1*)

H. Warren Wilson, Union Securities Corporation, New York.

Each of the fourteen Districts held elections this Fall to fill up-coming vacancies on their District Committees. Following is a list of those newly elected to serve on District Committees for the next three years:

District No. 1 Al Hughbanks, Hughbanks Incorporated, Seattle. William A. Nielsen, Merrill Lynch, Pierce, Fenner & Beane, Spokane.

District No. 2 Willard G. De Groot, Bate-man, Eichler & Co., Los Angeles. Frank Dyer, Jr., Wagenseller & Durst, Inc., Los Angeles. Albert E. Schwabacher, Jr., Schwabacher & Co., San Francisco. Lewis J. Whitney, Jr., Dempsey-Tegeler & Co., Los Angeles.

District No. 3 J. Fred Brown, Boettcher and Company, Denver. Robert M. Kirchner, Carroll, Kirchner & Jaquith, Inc., Denver.

District No. 4 Charles R. Bennett, J. M. Dain & Company, Minneapolis. Morlan H. Bishop, M. H. Bishop & Co., Minneapolis. Ray F. Weidenborner, Henderson-Weidenborner Co., St. Paul.

District No. 5 Arthur R. Hanni, Seltsam, Hanni & Co., Inc., Topeka. John Latshaw, Uhlmann & Latshaw, Kansas City.

District No. 6 Barron McCulloch, Fort Worth. Walter S. Sorensen, Rotan, Mosle and Moreland, Houston.

District No. 7 Albert E. Gummersbach, Dempsey-Tegeler & Co., St. Louis. Edwin C. Sanders, Edwin C. Sanders & Company, St. Louis. James E. Womeldorff, Womeldorff & Lindsey, Little Rock.

District No. 8 Andrew M. Baird, A. G. Becker & Co., Incorporated, Chicago. Carl A. Falk, Buffet-Falk & Company, Omaha. Roy Falvey, Thomas D. Sheerin & Co., Inc., Indianapolis. Richard W. Simmons, Blunt Ellis & Simmons, Chicago.

District No. 9 James S. Millard, Millard & Company, Chattanooga. Einer Nielsen, J. C. Bradford & Co., Nashville. Edgar M. Norris, Greenville.

District No. 10 John B. Joyce, John B. Joyce & Company, Columbus. Charles A. Richards, Field, Richards & Co., Cincinnati. Walter Trinkle, The Kentucky Company, Louisville.

District No. 11 Arthur L. Baney, E. R. Jones & Company, Baltimore. William W. Mackall, Mackall & Coe, Washington.

District No. 12 Francis M. Brooke, Jr., Brooke & Co., Philadelphia. James E. Crehan, Moore, Leonard & Lynch, Pittsburgh. Richard L. Newburger, Newburger & Co., Philadelphia.

District No. 13 Ernest W. Borkland, Jr., Tucker, Anthony & Co., New York. Philip H. Gerner, George D. B. Bonbright & Co., Rochester. Robert C. Johnson, Kidder, Peabody & Co., New York. Allen J. Nix, Riter & Co., New York.

District No. 14 Joseph D. Gay, Maine Securities Company, Portland. Royal W. Leith, Burgess & Leith, Boston.

LEGISLATION

(*cont'd. from P. 3*)

5. permit sales to customers after effectiveness, irrespective of whether they had been given or sent any written material, but no sale would be lawful unless the purchaser was given or sent a final prospectus with or prior to the confirmation. The statutory prospectus, if accompanied by written notice of price and related data omitted therein, would constitute a final prospectus.

6. provide that the prospectus delivery requirement in connection with sales after effectiveness would apply during life of syndicate and to sales by underwriters or selling group members thereafter on syndicate securities. In addition, it would apply to sales by all dealers for a period of 40 days, but not to sales between dealers.

Signature Guarantees

The Association has renewed its efforts to work out arrangements with transfer agents to accept signature guarantees of members of the Association which would obviate the present necessity of guarantees by a stock exchange member or a bank. Preliminary discussions are being held by staff members with representatives of the transfer agents covering such problems as financial responsibility, bonding of members, maintenance of signature cards, etc. The Board of Governors is to be kept advised of developments in this effort.