SHIELDING THE SHEEP

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AS TOLD TO
JOHN B. KENNEDY

NOT long ago, one of the largest industrial corporations in America voted an extra dividend of fifty cents a share, and its stock on the Big Board went up. A normal and natural reaction, you'd think, for a well-behaved common stock. But skip back in memory to the days immediately preceding the market crash and those immediately following it; then, when a board of directors voted an increased dividend in cash or stock, the stock of their company promptly dropped. This habit of stocks declining on good news was so common that it produced a market axiom: "Sell 'em when the news is out." Since the Securities and Exchange Commission applied new rules to the old market game, that axiom has been changed to "Buy 'em when the news is out."

That reversal of market maxims is one of the major and more obvious reforms that the SEC has achieved for the protection of the public. Its regulation requiring a report on each trade in the stock of a corporation by directors and officers and by stockholders owning 10 per cent of the stock, plus the liability to repay profits made on trading within a period of six months on the part of these insiders, has effectively checked the taking of outside profits through inside knowledge.

Temptation will abound wherever other people's money is available. Temptation runs side by side with opportunity through the mazelike structure of our financial markets, and it has been the purpose of the SEC to discourage temptation without suppressing opportunity for profit.

Apart from ethical considerations, it was bad business practice for directors of companies to take advantage of confidential information to cash in or check out on their company's stock. Too many gentlemen with curvature of the conscience were in key spots where they could anticipate trends and take their stockholders and the public for a ride. And the public had been raided and ridden so often by insiders in all the ramifications of the securities business that confidence was shattered and the stock market sent into mourning for three or four years following the boom that became a boomerang, following the gold-clause jitters and the holocaust of investments that wrecked public faith. The unfortunate losses which affected every family of means had the natural effect of depriving the investor of confidence in the mechanism of investment and in the operators who control this mechanism, so that the investor who expected 6 per cent on his money came to regard himself as lucky if he got back 6 per cent of his money.

The harrowing distress of the market collapse was heightened almost to a point of horror when the big shorts hammered away. It was like Carnera under the flailing fists of Joe Louis, groggily coming up from one spill, to be flattened again, and battered into oblivion, if the referee had not intervened. The referee was the combined attempt by the Hoover Administration to blame the aggravated depression on the shorts, and the effort of the Stock Exchange itself to curb the wilder bears by making one of them the goat for the rest. (Continued on Page 61)

"WE WON'T EAT NO MORE SPINACH!"

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Popular outcry against the shorts became frantic. For when investors saw the bluest of the blue chips being smashed and made to look very blue indeed with batterings and bruises, they demanded some halt to the carnage. The supervision of stock exchanges by the Government came after most of the losses had been suffered by reason of the collapse of 1929 and the subsequent practices. The Commission and the exchanges have a community of interest in protecting the market against demoralizing activities; and while the price level is subject to a thousand and one influences, and no government could pretend to guarantee in a security market a fixed, or minimum, price, nevertheless the clamps can now readily be applied to stop the bears abruptly from turning any top ride on the market into a toboggan.

The bears—the pessimists who sell short—have a useful function when they don't carry their policy to extremes. They can cushion drops when flights are ramping or rampaging too high. Really, it takes more courage and cunning to be a bear than to be a bull. A bear is betting against the popular, optimistic side of business sentiment. And don't think that the really big bears, or shorts, always get that way because they are born wailers. They are out to make profits from pessimism just as the bulls are out to make profits from optimism.

One of the most successful short operators in the market always knew what he was doing. He was credited with uncanny judgment because he had a poker face and invariably guessed right. So they thought. Really, he *didn't do much guessing at all.* When he set about hammering the stock of a company, however great the company might be, he knew more about the *management* than the public did. He amazed the market once by persistently selling short the stock of a company that appeared to be flourishing. Its factories were lighted up all night as if it were working three eight-hour shifts. But this broker discovered that although the factories were lighted, only the lights were working. He argued that any management capable of that slight deception would not stop at more serious pretenses. So he set about battering that company's stock until he drove it down to the basement and below. Really ambitious shorts have not hesitated to place spies in companies whose management they suspected of playing fast and loose with shareholders and the public. If their suspicions were confirmed they launched their short attack, and in the long run the investing public as usual was left holding an empty bag.

Commission Safeguards

These major evils of the exchanges—pools, wash sales, matched orders, and the rest—together with many minor flaws, have been substantially corrected through the SEC. The first law—the Securities Act of 1933—empowered the Commission to regulate the public offering of securities, and the second law—the Securities Exchange Act of 1934—enabled the Commission to regulate trading in securities. The Commission is designed to be a permanent body, devising safeguards and applying sanctions as experience suggests and authority warrants. The SEC operates as a registry of information required to be filed by those who seek other people's money. This involves complicated problems of interpretation, preparation of forms and regulations. In addition, *the Commission* has the obligation to investigate complaints that security issues have been fraudulent, and has the power to institute *injunctive proceedings* in its own name; and it is obligated to turn over to the Attorney General evidence which it discovers indicating violations of the criminal sections of the Act. Under the Exchange Act it regulates the large exchanges of the country, *registering securities traded thereon,* supervising the rules and practices of the exchanges with a view to attaining honesty in trading. It also has jurisdiction over the trading in the over-the-counter markets. There are many other obligations which Congress has imposed upon the Commission, such as the making of studies involving unlisted trading, protective committees in reorganizations, the segregation of brokers and dealers, and so on. I confidently predict that the study of protective committees and corporate reorganizations under the direction of Prof. William O. Douglas, of the Yale Law School, will result in one of the most important contributions to the science of government in years.

What Registration Implies

In all the activities of the Commission there is a common objective—that is, full and adequate disclosure of *relevant information for the investor* and fair and honorable trading in the security markets, whether on or off organized exchanges. This essential information was something the public rarely had in the old days, and even then the public had it with a microscopic warning that the information really should not be relied on. This was intended to be a legal out for the promoters who were seeking other people's money without exchanging even legal responsibility for their sales talk—the old trick of trying to sell a pot of gold bricks at the foot of the rainbow; the fact that a security is accepted for registration by the Commission does not mean one syllable more than that the registrant has complied with the rules of registration by telling what appears to be the truth as to its physical condition. If it turns out to be untrue, the registrant may be liable criminally and civilly. That is all. Some of the bright boys have already developed *a technique of letting the* investor assume that registration is, in some measure, Government approval of an issue. It isn't, and under the law *it cannot be.*

There was general uncertainty in the securities business when the new laws were known to contain more than rubber teeth. In many places around Wall and La Salle Streets and elsewhere there was outspoken antagonism. It was felt that the President had appointed me as chairman of the SEC because he knew that I knew all the angles of trading, that I had studied pools and participated in them and was aware of all the intricacies and trickeries of market manipulation.

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This, it seems, made many people nervous. There was never any real reason for that nervousness. True, I had engaged in many a furious financial fight and knew the formulas—when to duck and when to hit. My approach to my job was very understandable. I had a technical training and I had some years of experience which gave me knowledge of a very intricate business. My aim was to enforce the law by adopting regulations and interpretations which would protect the investing public without unduly burdening honest business. Gradually, the business community came to believe that the Securities and Exchange Commission was an instrumentality of Government which would aid effectively the investor and the security business.

I shall be eternally grateful to President Roosevelt for putting me in good company on that Commission. There was Ferdinand Pecora, who conducted the Senate banking investigation and is now a New York Supreme Court Justice. It amused Mr. Pecora and myself to find headlines discussing an imaginary contest between us for the SEC chairmanship. From the first minute we met, our relations were never competitive, but wholly cooperative. That goes for all the members of the Commission. There was hard-headed George Mathews, of Wisconsin, who had strictly supervised that state's blue-sky laws for years. There was Judge Robert E. Healy, of Vermont. He, as counsel for the Federal Trade Commission, had made an exhaustive and brilliant investigation into utilities. And James M. Landis, a prized professor of Harvard's law department and an aggressive champion of the unwary investor. Mr. Landis, who is destined to be a remarkable administrator, succeeded me as chairman at the end of the year of service I had undertaken.

In addition to these outstanding citizens as members of the Commission, we had an able corps of helpers and advisers. John J. Burns, of Boston, so conspicuous a legal talent that at the age of thirty he was elevated to the conservative Superior Court of Massachusetts, became and remains the Commission's counsel. There was James A. Fane, also of Boston, a member of one of the country's leading trading firms. As with Judge Burns and others of our personnel, he sacrificed his private interests to render this public service.

A Lay Financier

I should like to mention other men and women among the seven hundred odd on the SEC roster, for in all my business experience I have never found a more capable or conscientious personnel than that of the Commission and its staff. Assistants, investigators, clerks—the staff was made up of workers with special knowledge, and not a clock watcher in the outfit. Some of them worked for more than their salaries—and not one of the pay checks, from that of the chairman down, was extravagant.

A case typical of many applicants for jobs was a white-collar worker who volunteered to help us, a chap who came to us ballasted by letters from congressmen and senators. We asked him what his experience had been in securities trading.

"I'm the world's leading layman in finance," he said. "I have the unique record of having taken every tip ever given me. That's why I need a job now."

He was told that if he was an expert because he lost money in the stock market, then we were a nation of experts.

From brokerage offices, from banks, from financial departments of newspapers, we recruited professionals, which explains why a lot was accomplished in a little time. And another name that I cannot omit is that of Eddie Moore, my confidential assistant, who handled the delicate problems of diplomacy. People who came asking impossible favors had to be refused, but at the same time the operation had to be a pleasant one. Eddie Moore, an artist in personal relations, performed flawlessly. Eddie served as secretary to three former mayors of Boston, no one of whom talks to the others, but each speaks affectionately to Eddie.

His place with the new chairman is taken by Tommy Gammack, whose great qualities of mentality and personality augur well for Mr. Landis' peace of mind.

Getting at the Facts

Our first task was to simplify forms for registration under both acts. Criticism of the administration of the Securities Act was directed at the content of the forms for registration. Much of this criticism was pure jitteriness sponsored by lawyers from the large financial centers who were unwilling to take any risk in exercising their judgment. Although doubtlessly paid very well, they found safety in the advice, "Don't do it." As one great industrialist has said: "Lawyers make me sick. All I ever get from them is advice on what not to do." Some of the forms, however, were in many instances impracticable. With the aid of experts on the Commission's staff and with the help of lawyers and accountants from private life, forms were devised which have been quite successful in bringing out important information without imposing impractical restrictions. Registration proceeded with order and celerity, and very quickly shareholders who were curious enough about the fate of their money to inquire—and that is rarely the case—were able to obtain information they had never had before, as was the general public. Such as salaries of chief executives.

The Commission's task under the Exchange Act was man-size. In addition to our antifraud activities, we had to devise regulations which would affect everyday activities of brokers and dealers. It was an agreeable surprise to me to find an almost complete absence of political interference in our work.

I think one instance—the facts of which found their way into financial districts—reassured big business that the SEC was going to be conducted utterly on the square. This was an attempt—the only attempt—to bring political pressure to bear on the Commission. It was promptly squelched, and business breathed easier because it knew we meant business.

Above all things, our job was to stir up the torpid waters of American finance, to convince the shy dollar that it was protected from the shyster—that the investor in any registered security could find out exactly what he was buying. I confess that for a while I was personally impatient with business. It seemed, to me, to be sulking. In a speech in New York I went to the extent of calling business cowardly for not getting out and fighting for prosperity, when the Government had done everything it could within legal limits to restore the confidence of the investing public.

Business finally began to move, and the stock market with it—lagging first, then leading—to demonstrate, if we ever needed it that the exchange does reflect, if not the condition, at least the confidence of the country. The SEC, with the assistance of the country's press, reclaimed a large measure of confidence in the exchanges, in the market. We eliminated some exchanges that had no right to function.

There was the New York Mining Exchange. It was called the penny stock market. Its clients were thousands of poor folk dealing with door-to-door canvassers who sold cats and dogs that rose or fell in terms of penny points. A cheap, easily fixed market that wouldn't have been worth bothering about excepting that its victims were people to whom pennies meant much.

The SEC also stopped the Boston Curb, a famous old playground for skip-stop promoters before and since the days of Tom Lawson and frenzied finance. We prevailed upon the Produce Exchange in New York to stick to its job of being an exchange for produce and not to permit it to be used as a minor stock market. The California Stock Exchange went the way of the New York Mining Exchange, and others folded up voluntarily.

There were stocks and bonds on these exchanges that represented absolutely nothing but names in the gazetteer section of the dictionary, yet people had invested tens of millions in them. There is, of course, a very large problem remaining with reference to fraudulent promotions. But control has been effectively established. We shall probably never see the day when fraud will be completely eliminated, but under our very eyes we saw a transformation through swift and efficient governmental action. Ultimately the Securities and Exchange Commission will come to be the agency to prevent interstate swindling, while the state commissions will find adequate reason for their activities in the protection of investors against intrastate deceptions. There is room and glory enough for the activities of both Federal and state agencies.

What the Investing Public Forgets

As often as it has been explained, the investing public seems to forget quite as often that the New York Stock Exchange is a monopoly whose members can make rules to outlaw violators of its code of conduct. Apart from its economic function, it's a gambling club where the customers bet on a business growing better or worse. In the old days, the customer could buy on a margin of 10 per cent and pyramid until he jumped suddenly into a fortune or out of a window. Now he is protected somewhat against himself. He has to pay a higher margin—a third to a half—which reduces the gambling impulse and saves him from being quickly wiped out on a dip. He's saved from the epidemic panic of damaging short forays or counter-offensive corners against the shorts, because the Government insists on knowing when blocks of 10 per cent or more of a company's stock are changing hands—and from what and into what hands. The cornerer—since Allan Ryan's spectacular adventure or misadventure with Stutz, when the powers punished him for his audacity—is almost unknown in the market. The short can pick up floating supplies of any stock he's bearish on, but the ruthless wholesale dumping of other days by the professionals is over.

On a morning of one of those other days a famous and feared short walked down Broad Street. He was up to his neck in short orders in the stock of a well-known corporation that was holding a directors' meeting that morning.

"Where are you going?" a friend asked him.

"Oh," the notorious short grinned, "I'm going to the So-and-So board meeting."

"Did they put you, of all people, on the board?" he was asked.

"Sure," he grinned again. "To represent the shorts."

Curbing the Rigger Boys

Regulation has given the stock exchanges a firmer character that has rapidly reduced the fear of investor and speculator. Big-scale rigging in any major security is now so colossally expensive as to be almost impossible. A few million dollars and a few thousand shares cannot now be used to seesaw a stock without the odium to the riggers that goes with manipulation. By former neglect of regulation, and Federal easing of credit to make call money plentiful, the Government used to give the boys—the rigger boys—a hand; now it's more likely to give them a handcuff if they're caught sharpshooting.

Although the public can get a better run for its money now than in 1929, when the boys didn't give it a run for its money so much as a run with it, there is much yet to be done to improve the stock-exchange system—to define and sanction legally the definition of the difference between traders and dealers; so that when a customer orders his broker, for instance, to buy five bonds of the XYZ Company, the customer must be notified in writing at or before the completion of the transaction whether the broker acted as a broker—with the specified commission—or as a dealer who can pick up the bonds at a low price and sell at the highest he can get. In the case of a broker acting as a dealer, it's much like a bookmaker betting on a race when the horses are in the finishing stretch. Now, if a customer is not notified in writing whether his broker is acting as broker or dealer, the transaction can be rescinded by the customer. So that form of scalping is out.

Another difficulty for the SEC ultimately to iron out is the specialist. With odd-lot firms, floor traders and over-the-counter traders, regulation must necessarily be slow. The rule we laid down from the beginning was that the Commission must have information before regulation; and in the intricate structure of our financial machine since the simple days of trading under the berry tree at Broad and Wall, the functions of these various media for exchange of stock have become confused.

Take the specialist. He can serve a very useful purpose with his special knowledge of a certain stock by balancing the market to prevent sharp fluctuations. But in the nature of human cupidity, the danger is that he can also serve himself by clipping off a few points down or up when the stock is in his hands, or at least when the buy-and-sell figures are in his order file before they become quotations.

My own experience demonstrates how it is far from easy to decide a matter involving the functions and livelihood of hundreds of men. For when I heard all the arguments against the specialist, I wanted to retain him in the financial scheme of things, and when I heard the specialist make all the arguments to retain himself, I felt like abolishing him.

Admittedly, the stock exchanges are gambling places, necessary for a free market in securities; but now the Securities and Exchange Commission supervises the dice and prevents the insiders from looking at the customers' cards. The SEC has done a good job if it has persuaded the public—and this seems to be the case—that a mere quotation may represent the market value of a stock, but it doesn't necessarily indicate its virtue as an investment. Dolling up of a market quotation cannot now be done through dummy sales. I recall one case, typical of many involving many millions. The partners in a flourishing company had decided to let their principal employees into the ownership. So the group raised the money necessary to participate. Meantime their benefactors had been busy getting the stock quoted on some minor exchange at a price high above its book value so that when the employees bought, they bought a considerable amount of the aqua pura that has been for too long too large a constituent of many securities. When they make paper, you know, there's a point in the process of rolling the pulp where the paper emerges into thin consistency, but it's 90 per cent water until the water's processed out. Reams and reams of stocks and bonds must have been printed in the past on the paper that contained 90 per cent water, for that's about what these securities contained.

Now it's different. Before a security can be granted registration, it must have its story told in figures that convey the facts without the bookkeeping tricks that were always, in the past, on the side of the insider.

The SEC Program

When you consider the enormous listings on our various exchanges, the colossal structure of our trading system plainly conveys the warning that rash reform would be exceedingly dangerous. Slow and studious regulation is the better program, and that is the program to which SEC was from the first committed. The simple, straight objective was to let the public know what it was buying—senior or so-called junior securities—what Class A or Class B, voting and nonvoting, warrants and rights really meant. In brief, reducing technical terms and screening or ambiguous verbiage to simple statements of truth.

That is why I have reason to believe that in its first year the SEC saved the investing public a good portion of the billions it puts annually into business through the new regulation of the exchanges and through a vigorous campaign against tipsters and swindlers.

Strategically, we believed that prompt investigation and suppression of phonies would, besides protecting the public, have a stimulating influence on bona-fide financing. So we spurred on our field men, aided by the most dogged and diligent of Government probers, the Post Office inspectors, who always seem to capture more grafters than glory.

We began with the bright and brisk gentry who pose as financial counselors. Their trick is very simple. They pretend to have systems and inside knowledge, and often can steer a customer to a quick profit in a stock

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simply by stealing the syndicated advice of recognized financial bureaus or writers. Then, when they have the customer's confidence, they dupe him by exchanging for his blue-chip securities cats and dogs which they are seeking to unload—which they own themselves or on which they have a call or option.

To cite one of many cases: We found a so-called financial service ready to give its clientele what the boys call "the pump." A slick trick, that is, of sandwiching bad advice on investments amongst good advice. A common and crooked practice; but when SEC sleuthing uncovered that one, many others voluntarily folded up.

Next to the phony tipsters on our list, were the oil-royalty rings, who made quite a ballyhoo when the stock market hit the doldrums. Oil royalties were touted everywhere as safe substitutes for industrial investments in a treacherous market. At its best, an oil royalty represents a vanishing property when the wells are being tapped. Somebody, in a letter to the Commission, said truthfully that distance lent enchantment to the view of oil royalties. Three thousand miles away from the oil fields they seem worth two or three thousand dollars, but this value vanishes as the oil well is approached.

Of course, oil royalties can be good, but there are a lot of smart men in the legitimate oil business, and they don't let many good things get by them. For those who desire to diversify their holdings by investing in oils, there are sound, established companies whose securities are available, and whose staffs are manned by experts readily able to tell an oil royalty from a racket.

Our chambers of horrible examples in Washington and in the branch bureaus presented enough recent cases of fraud in spurious oil and other promotions to convince me that you cannot conceive of anything in the way of a glittering prospect for the gullible that the bunco boys have not already thought of. Their guilt-edged securities cover every need and nuance of human living—even of dying, for they've actually promoted cemeteries where the mourners would need to be Channel swimmers to attend interments.

Gyps That Pass in the Night

Tales of woe came in to us from every large city, from most of the small ones and many of the suburbs—of long-shot stocks sold as securities which were arrant speculations—bucket-shop buys. Some folks believed they could win quick riches through buying Florida frogs to breed frogs' legs and saddles on an enormous scale—if the bull and belle frogs lived up to expectations. There were gold mines galore, because the public became gold-conscious when we slipped off the standard. One mine I recall sold plenty of stock based on an engineer's belief that a stone picked up by a schoolgirl at play showed rich gold deposits near her home.

But if the American investor isn't alert to torpedo finance by now, I despair of ever insuring him against the gyps that pass in the night and the day. Popular names on the Big Board and on the Curb and other exchanges are often plagiarized by bogus stocks, but it's comparatively easy to find out the nature of the offering. Any legitimate banker or broker can tell immediately. The Patent Office is filled with fantastic inventions, but it's a paradise of practicality compared with the fake-security museums. J. Rufus Wallingford, Get-Rich-Quick Wallingford, in the heyday of his fictional career in THE SATURDAY EVENING POST, with his promotion of, for instance, a covered-carpet-tack company, was a philanthropist compared with the fakers who pose as public friends and have only one slight difference in technique from public enemies—they use words for weapons.

The Canadian System

Regrettably, I've come to the conclusion that we can effectively protect all classes of investors against the depredations and rapacity of the racketeer only by licensing the buyer of securities. Sometimes I've envied the Canadian system. The Canadian authorities gave the SEC excellent co-operation, especially the Ontario commissioner, who, because he is unrestricted by any constitutional safeguards, literally throws the crooks out of his jurisdiction. His investigation into a stock promotion would make our Federal judges shake with shock. He operates without regard to rules of evidence, and in the ominous presence of a uniformed officer. But whatever its legal weaknesses from our point of view, you can't help admiring one fine quality of this Ontario system—it works.

Even if flimsy issues secure registration because they fill out the forms, let me reiterate that registration is not approval or indorsement. But it is only when a corporation lies, or when it refuses to register while persisting in selling its stock interstate, that the SEC can prosecute.

Fortunately, politics played no part in the activities of the Commission, and here let me say that even the briefest review of reform in the securities business would be incomplete without praising the sponsor of the legislation. The motivating force, the most decisive factor in the passage of the Securities Act of 1933 and the Securities Exchange Act of 1934, was President Roosevelt. For that accomplishment, time, I am sure, will give him enduring fame, if for no other reason than that the legislation represented an honest and direct attempt to strike at the evils under which, for many years, the American public suffered.

During the year we had many indictments and some convictions—not enough, I fear. Yet vital statistics of criminal action do not begin to tell the story of the salutary effect of the SEC on the investment business. The Commission had a productive process which I call whitemail as differentiated from blackmail. Learning of old slickers up to new stunts or in new locations, the SEC would send an investigator or query the veterans as to their operations. I recall one old-timer who had been, in his way, one of the minor wolves of Wall Street. He said that SEC espionage gave him a temptation he could barely resist—to go honest. Suspects were warned that they were watched, and that was usually enough to stop the nonsense. If those warned persisted in pushing their stocks, we persisted in investigating. In those states where there are no blue-sky laws we had difficulties, although in states whose citizens are protected against bunk promotions we had ample support.

We also had ample opposition from curious bodies which resented the idea, apparently, of the Federal authority stepping in to shield the sheep from the wolves of Wall Street—and this opposition proved that Wall Street has no monopoly on wolves. Sometimes, indeed, I've been led to believe that the real wolf at the American door is the salesman of fake securities—the high-pressure boy who, in some cases, actually has been found talking against a three-minute egg timer over the telephone, on the principle that if he can't get in in three minutes, he's out forever.

I could quote endless correspondence between the Commission and its critics and opponents in various parts of the country. It's pleasanter to think of the fine co-operation we received generally from the financial field. Even when, as on occasion, I chided their wariness and hesitancy, they took it well. At first, Wall Street was frankly skeptical; but when it saw that we meant business, that we wanted to wake up business, to restore confidence and release for investment hundreds of millions of money damming up in the banks, it rallied. I, personally, have the most pleasurable recollection of conferences with leaders in all the principal trading centers. They manifested, not only by word but by action, that they desired a renewal and insurance of public confidence through the regime of the SEC.

Bitter days had hardened them to the need of a purge, of a militant campaign for honesty.

Yet this campaign will be futile if the public does not thoroughly understand the limitations of the Government's functions.

A Simple Rule to Remember

In every investment—and I mean honest investment—there must be an element of risk, of speculation. For even the greatest and richest and soundest corporations are subject to human weakness, to unevenness of management, which can quite often be more costly through ineptness than through dishonesty. The SEC cannot guarantee good management. No power on earth can. The SEC can warrant nothing save that the companies registering and filing their statements with it have told the truth about themselves, which the SEC checks and makes available to the investing public.

There is nothing whatever to be done for people who insist on being hoodwinked. They actually go the Bible one better, for instead of being smacked and turning the other cheek, they are robbed from one pocket and proceed to empty the other. On one occasion the Commission actually warned scores of men and women on an amazing sucker list that they were in danger of being swindled, yet with this official warning many of them trotted out calmly to be sheared, actually buying securities from the dubious concerns they were warned against.

Having wallowed through the dismal records of thousands of swindles, sometimes I fear that some people were meant to be tied all their lives to their mothers' apron strings, and that even so they would finally manage to hang themselves on the strings.

It's a very simple rule to remember—not to monkey with the stock market or with any investment or speculation, if you don't understand it.

My fear at this writing is that the public is at the end of one cycle and the beginning of another. In the stock market, issues are being eagerly bought—some at prices far higher than the top of the 1929 boom, relative to earnings. It's well enough to have faith in the future, but don't buy too much of it at one time. It can come expensive that way. I believe that with the dollar on a diet and a measure of inflation in force—not, of course, the inflation that would make a bet of dollars to doughnuts a break for the doughnuts—good American industrial stocks are safe investments in equities. But nobody can predict the market. It's constitutionally fickle. I have no way of estimating, but hundreds of millions of European money is in the American investment market now. Perhaps some day, when their war scare fades, the string will be pulled and we may see another selling stampede, with its customary slaughter of the innocents.

Fortunately, enforced increase in margins will prevent anything like the shoestring suicide of 1929, when, as somebody said, you could walk across the Hudson River on the top hats of ex-millionaires who'd jumped in. But people will gamble. Indeed, gambling's our leading industry, outdoor and indoor. And it's no use telling a gambler to risk only what he can afford to lose. Then he wouldn't be a gambler.

My earnest advice is for the armies of small investors who cannot afford to lose; who, trained in careful investment and given a square deal, are the backbone of industry and our social structure:

If and when approached by glib high-pressure salesmen, call for registration facts before buying any security from anybody. If the facts are not forthcoming, consign the would-be seller to some other sphere—preferably the stratosphere.

STOLEN GOODS

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ceased to be stolen property and become big business. In a workshop of crime they had been unstrung, to be jumbled with pearls stolen from New Orleans, others from Chicago, or Detroit, or Cleveland, or Kansas City, or San Francisco. The clasps and other identifying possibilities had gone into old gold. Out of the conglomerate collection, new strings had been fashioned, new clusters, new bracelets and necklaces and tiaras, until no one collection contained more than a few pearls from any original string. Fiction to the contrary, present-day thieves are not highly tempted by unusually large and widely romanticized stones; they prefer a type which can be matched by thousands of others of a like weight, color and flawlessness. Thus, once out of a setting and mingled with other stones, such gems are lost to identification. Because of this, jewel thieves can be sent to prison interminably, but as long as the manufacturing fences exist, gem insurance will remain high.

To that end, the generally accepted picture of the average fence must undergo a change. Most persons look upon him as a creature of the underworld, subsisting upon petty-larceny operations. Also there is the widespread belief that every thief treads a beaten path to a pawnshop, there to rid himself of his loot. The truth is that most pawnbrokers shy from the rewards of theft. Pawnshops long ago became the first line of investigation in the field of law enforcement. Records must be kept of purchases, and a pawnbroker with a memory so short that he fails to identify a pawner of goods soon becomes an object of intense police activity. In fact, the pawnshop serves more often as the first step toward a penitentiary than as a means of rewarding crime. Detectives make the rounds daily, checking upon reports, of goods received, which are filed at police headquarters. Gun numbers are checked, often resulting in the first clues which lead to the arrest of burglars and murderers. The sign of the three balls is a lure only to the amateur, the petty thief and the man desperate enough to take long chances. Who, then, are the fences? Often they are persons supposed to be friends of law and order.

No matter how often fiction detectives solve crimes by clue and deduction, the backbone of law enforcement rests upon that old stand-by of Scotland Yard—"from information received." Detectives of practically every large city are allowed expense accounts from which to pay for information that will lead to the arrest of wanted men, the name of the informant remaining secret. In addition to the stool pigeon who sells information there is the one who squeals on his pals to keep his own carcass out of jail, often committing crimes with immunity because he is a good tipster. This last-named person often is an important cog in the disposal of immense amounts of stolen property. If the incentive is sufficiently high he will turn up his own thieves, either bargaining with police for a light sentence, if the chase is hot, or willfully betraying them to keep his "in" with the police, since new thieves are easy to obtain.

The brains of crime often rest in the heads of persons who work behind the scenes, while an active criminal takes all the risks, and is publicly looked upon as a menace, but in reality is little more than a puppet.

It is regrettably true that such men exist in every large city. In places of loose law enforcement, the police know his occupation, but shut their eyes to it because his tips mean an appeased public. In flagrant cases there is not even this redeeming feature. The fence may be a politician, or he may pay politicians. And nowhere is this fence a skulking habitué of dives and dens, but an integral of the ordinary run of society.

One of the biggest fences of stolen cars arrested within recent years was a man who ran the most popular parking lot in town. He was a member of civic organizations, and so important in fraternal orders that he engineered the acceptance of a number of other crooks, much to the later discomfiture of his lodge brothers. The biggest shover of hot bonds in the Middle West, now a cell-block resident, was a widely known road contractor. One fence, when arrested, was found to spend much of his time on Jeweler's Row in New York, and was known there as a supposedly honest businessman. A trail of hot money resultant from kidnapings revealed the fact that this money was changed into "fresh dough" through the operations of politicians, doctors, lawyers, cigar-store keepers, night-club owners, race-track bookmakers, farmers, manicure girls, merchants, whisky dealers and garage owners.

Of such is the background of today's fence. Sometimes he is able to befriend law-enforcement officials with one hand, while with the other he dispenses the