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AN OPTIMIST'S VIEW OF THE NEW YORK STOCK EXCHANGE

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There seems to be a rumor circulating that, before very long, the New York Stock Exchange will join the 5-cent subway fare, the Herald-Tribune, the Polo Grounds and other once-vital New York institutions as a nostalgic remembrance of things past.

I want to assure you that, despite the persistence of the rumor, the facts do not support it. The New York Stock Exchange is alive and well at 11 Wall Street.

Several popular, but very inaccurate, assumptions seem to be responsible for keeping the rumor alive.

One such assumption is that the Exchange has always been, and will continue to be for the remainder of its existence, unwilling and afraid -- and, therefore, unable -- to compete for the business it must have in order to survive and flourish.

A second erroneous assumption is that changes in securities trading patterns -- and attitudes within the securities industry -- have permanently alienated millions of individual investors whose participation is absolutely essential to maintaining a viable exchange auction market.

And a third widely accepted misperception -- less specific than the first two -- seems to be that the New York Stock Exchange has somehow outlived its usefulness to the national economy.

I tell you very honestly that if I found it possible to credit any of those assumptions, I would not be associated with the Exchange in any capacity today. I have a very different view of the future of the New York Stock Exchange -- an optimistic view, if you will -- that I would like to share with you.

I should add that my very firm convictions about what the New York Stock Exchange is, and where it is going, have nothing to do with intuition or wishful thinking. They are firmly grounded in facts and figures that offer a key to what lies ahead.

<u>NEW FORMS OF COMPETITION</u>

To begin with, let's look at the question of competition -- that supposed bugaboo of the Stock Exchange.

Competition -- both the word and reality -- are changing the psychology and the structure of the entire securities industry today. And, in fact, many new forms of competition are already in motion throughout the securities industry -- with the New York Stock Exchange in the thick of the action.

For the first time in the long history of the Exchange, we have had -- over the past year and one-half -- competitive public commission rates.

We have had -- since last May -- comparable rate competition for professional trades.

We have vigorous competition among specialists and market-makers in the various market centers where Exchange-listed stocks are traded. And it has become clear to everyone, I believe, that it is perfectly possible for dealer and auction markets to coexist in a competitive environment. As many of you know, competition has been greatly intensified, industry-wide, by the introduction of sophisticated electronic order-handling systems by the NYSE and a number of the regional stock exchanges. And, of course, just a few months ago, a 65-year ban on competition between NYSE and Amex market-makers was ended by the two exchanges.

We have been actively encouraging competition among our own specialists in making markets on the NYSE trading floor -- also for the first time in many years, although such competition has never been banned. And while there has not been a great rush to compete, there has been a noticeable improvement in market performance. One possible explanation of this -- although we can not be certain -- is that the mere recognition that weak performance may trigger competition is providing as strong an incentive as competition itself.

We are also eagerly awaiting action by the SEC on our proposal to open up a new classification of Competitive Traders whose activities would stimulate greater competition and liquidity within the trading crowds on the Exchange floor.

But for the Exchange, the possibilities of competition go well beyond these areas. Compared with just a decade ago or less, the investing public today can choose from a much wider range of investment opportunities and alternatives. The old simple choice between stocks and bonds is obsolete. Even investors of modest means now think in terms of fixed-interest securities, options, bond funds, tax-free municipals and other sophisticated instruments that compete with corporate equities for their investment dollars.

At the Exchange, we are looking very closely at ideas for new products that can strengthen our ability to compete effectively for the public's discretionary income. Options trading is one strong possibility. We will be discussing this with the SEC next month, and we expect to have a proposal to place before our Board of Directors and the Exchange membership very early in the new year.

What I have been describing is hardly the behavior of an organization that is unwilling or afraid to compete. And when the statistics start piling up, I believe they will show that the NYSE is a very effective and successful competitor.

So much for the first assumption about the future of the New York Stock Exchange.

The second erroneous assumption is rather more complicated.

RECLAIMING THE INDIVIDUAL INVESTOR

It is a well-documented fact that the number of individual investors in this country declined sharply in the wake of the pervasive operational problems of the securities industry -- and the subsequent long, steep market price decline -- of the late 1960s. Between 1970 and 1975, an estimated net total of some 5½ million Americans left the ranks of shareowners. Perhaps even more disturbing, the median age of U.S. shareowners rose from 48 to 53 over the same period -- an indication that younger, more risk-oriented investors have not been coming into the market in sufficient numbers to offset normal attrition in the ranks of their elders.

More recently, it has been alleged that the move to competitive commission rates, while substantially reducing investment costs for those who invest on a large scale, has offered little or no advantage to the "small" investor. Millions of such individuals have been characterized as thoroughly disenchanted with both the stock market and the larger economic system of which the market is a prominent component. That is no doubt true of some -- perhaps of many. I believe it is also true that many investors liquidated their stockholdings to bolster their ability to cope with the impact of recession and inflation -- and may not yet have perceived any persuasive reason for coming back into the market.

I believe there are a great many people out there with investable funds who are ready to respond to reasonable incentives to put some of their savings into stocks. I believe that many of them simply want some reassurance that the government won't penalize them with heavy taxes if they happen to make some money on their investments. And I believe that others seek only some certainty that investors who buy no more than 100 -- or fewer -- shares at a time are welcome customers.

One of the questions most frequently asked of me since I became Chairman of the Exchange has been some variation of: "What are you going to do for the small investor -- and when?"

Well, of course, we have been striving for economies and efficiencies in the marketplace that can be translated into cost savings for investors. Much of our support for the concept of a National Market System reflects our belief that the stronger competitive environment inherent in such a system will both improve service to investors and help minimize the costs of investing. But the question, "what are you going to do for the small investor?" obviously has other implications.

Many people assume that the public's attitudes toward buying equities have changed quite dramatically. But I know of no reliable documentation. It may be that we need to conduct a comprehensive study of public attitudes toward investing before we attempt to design a specific program aimed at attracting individuals back into the equity market.

Back in the days when Keith Funston headed the NYSE, such studies were a fairly regular part of Exchange research. But the times have obviously changed -- and it may no longer be appropriate or feasible for the NYSE to claim exclusive proprietorship over such efforts. Then, too, the types of approaches to investors that were persuasive 20, or even 10, years ago may be hopelessly outmoded today.

A resurgence of public confidence in shareownership would offer market opportunities not just to the New York Stock Exchange, but to competing marketplaces and their members, as well. Listed companies eager to broaden the base of their ownership would also have a stake in renewed public interest in equities. And I would expect that any study that seeks to develop new ways to broaden the market for stocks would, either directly or by implication, suggest specific programs that might be undertaken by the NYSE, by other exchanges, by the over-the-counter markets, and by corporations whose stocks are traded in any or all of those markets.

One question that needs discussion is how to apportion the costs of conducting a really definitive study. Another -- that need not be addressed immediately -- is how to coordinate educational and marketing programs growing out of such a study. These are basically trade association functions. But an earnest effort to broaden the market for stocks would necessarily cut across many industry lines.

The New York Stock Exchange would certainly be willing to assume a key role in such an effort -- and to pay a full, fair share of the costs. A cooperative undertaking would have a much greater prospect of success, I believe, than any unilateral effort to direct business to a single marketplace.

In the past, to be sure, the NYSE -- in addition to wearing many other hats -- assumed a number of trade-association functions. But with the emergence of the Securities Industry Association as a very active and effective representative of a still-broader industry constituency than our own, we have relinquished that role. Today, we look to the SIA -- as do other market centers -- for a new element of leadership in areas that affect the well-being of the entire industry.

A TRILLION-DOLLAR MARKETPLACE

Whatever the New York Stock Exchange may have been in the past, it is today, first and foremost, a marketplace. Its principal purpose is to provide high-quality markets for the securities of some 1,550 of the world's largest, most widely held public corporations. Our overriding concern today is to assure the integrity of the market mechanism -- of how trades are made -- and of the listed stocks -- the products -- that are traded in our marketplace. And I believe it might be instructive for those who subscribe to the third misperception about the Exchange that I referred to earlier -- that it has outlived its economic usefulness -- to consider the economic and social implications of these figures:

The NYSE today maintains the definitive pricing mechanism for well over $800 billion worth of corporate stocks -- a figure that advances to over $1 trillion when you add in listed bonds. At the same time, the Exchange serves -- as direct or indirect customers -- more than half the population of the United States.

It seems clear that the 50 large corporations that have listed on the Exchange so far this year -- including the nation's largest banking organization, the parent company of the Wall Street Journal, and three substantial foreign corporations -- must think those are very useful functions indeed.

Economic recovery has also served to contradict the gloom and doom view of the Exchange's prospects. In 1976, the net number of corporate shares eligible to be traded on the Exchange increased by more than 2 billion -- more than in 1974 and 1975 combined -- to a new total of 24½ billion. Moreover, last Friday morning -- with 28 trading days still remaining in 1976 -- reported share volume on the NYSE surpassed the previous record of just under 4.7 billion shares, set last year. I cannot make a firm prediction this far in advance, but there is a very good chance that volume for the full year will exceed 5 billion shares, for the first time in NYSE history.

A REALISTIC BASIS FOR OPTIMISM

Do such figures suggest a relic of the past? A sick giant without a future? An economic anachronism? Critics are certainly entitled to their own views. Indeed, we would have to be unconscionably smug not to welcome informed, constructive criticism from any qualified source. That kind of criticism -- both solicited and unsolicited -- from our own industry, from the corporate community, and from investors, played a valuable part in enabling us to develop, earlier this year, new standards of quality control for the Exchange marketplace. And we believe these new standards bring us an important step closer to achieving the public ideal of maximum market quality.

This is, to be sure, a period of many and vast changes for the New York Stock Exchange -- but of changes resting firmly on the best and strongest elements of the past. And perhaps the key factor in the Exchange's ability to accept, adapt to, and, in some instances, to initiate, constructive changes, has been a very perceptible awareness among its own members that many kinds of change are inevitable, or necessary -- or desirable. And this has helped bring about a strong degree of member participation in the decision-making process at 11 Wall Street.

One of the most important changes to date is that the New York Stock Exchange is far more publicly oriented today than at any time in its history. That is because all of us recognize the essential role of the Exchange in stimulating and facilitating capital investment -- which, in turn, holds the key to noninflationary, long-term economic growth. We also acknowledge a commitment to help create the kind of national investment climate that will encourage greater public confidence and participation in the basic processes of our system of private enterprise capitalism.

AN IMPORTANT CAVEAT

Now, I must admit that my optimism about the future of the New York Stock Exchange is tempered by the existence of a competitive disadvantage that we cannot deal with unilaterally -- and that may worsen with the continuing evolution of a National Market System. I am referring to the New York Stock Transfer Tax, which adds to the cost of selling stock in the New York markets. No other state or city in which a stock exchange is located imposes such a tax.

To complicate the situation, the stock transfer tax is paid by investors, most of whom live outside New York, and it is becoming an increasingly important cost factor as commission rates --especially on larger transactions-- are being negotiated downward.

I think it is accurate to say that city and state officials recognize that the stock transfer tax is counter productive, in terms of its impact on jobs and other tax revenues in the city and state. However, the revenues from the stock transfer tax --nearly $200 million a year-- are currently pledged to secure the bonds of the Municipal Assistance Corporation.

Thus, we are presently caught in the fiscal dilemma on the one hand while, on the other, we face the realities of growing competition from other markets.

Apart from this very important caveat, my own view of the New York Stock Exchange's future is very much at odds with the predictions of the doomsayers.

What I see is a modern, expanding, intensely competitive, multi-trillion-dollar marketplace, at the heart of our national economic system, enjoying -- and earning -- the support and confidence of the U.S. and international business communities and, most important of all, of the American people.

That may be an optimistic view -- but I think it is also a realistic one.

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