

FEDERAL RESERVE BANK OF NEW YORK RECORDS SECTION

NEW YORK 45, N.Y.

RECTOR 2-5700

AUG 1 1960

May 3, 1960

Mr. Ralph A. Young, Secretary  
Federal Open Market Committee  
Board of Governors of the  
Federal Reserve System  
Washington 25, D. C.

Dear Mr. Young:

There are enclosed ten copies of a memorandum relating to the financial condition and operating results for the year 1959 of the non-bank dealers in United States Government securities with whom business for the System Open Market Account may be transacted.

This memorandum is being sent to each member of the Federal Open Market Committee, as well as to the presidents of the Federal Reserve Banks not presently represented on the Committee.

Very truly yours,



Robert G. Rouse, Manager  
System Open Market Account

Encls.

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Financial and Operating Data  
United States Government Securities Dealers  
Year 1959

Information taken from balance sheets and reports to stockholders submitted by the twelve nonbank dealers with whom System Account business may be transacted is shown in the attached statement entitled "Comparative Schedule of Balance Sheet Data of U. S. Government Securities Dealers".

Most dealers do not submit profit and loss statements. However, the increase in net worth of the majority of dealers, before the adjustments shown in the footnotes to the attached schedule, indicates that 1959 was a profitable year, but to a lesser extent than the preceding two years.

Brief comments concerning the operations of the individual dealers are given below:

First Boston Corporation

The profit and loss information furnished below was included in the annual reports to stockholders for the years 1958 and 1959:

	1958	1959
Net income before dividends	\$3,037,030	\$2,869,475
Dividends	3,030,000	2,600,192
Net income after dividends	7,030	269,283

The reports do not segregate the net income obtained from operations in U. S. Government securities or from underwriting and trading in corporate, municipal and other securities. The report for 1959 does state that the dollar volume of new corporate issue financing underwritten and publicly distributed by investment banking houses in 1959 was markedly smaller than in immediately preceding years.

C. J. Devine & Co.

The management advises that earnings from operations during the calendar year 1959 were about \$1,500,000, substantially all from trading in United States

Government securities. Earnings from trading in state and municipal securities were said to have been nominal.

Because of the withdrawal of \$1,200,000 by the estate of a former partner during the course of the year, the increase in net worth was confined to approximately \$300,000.

Salomon Bros. & Hutzler

Net worth obtained from an unaudited statement dated December 31, 1959 was \$202,876 greater than at April 30, 1959, the most recent previous statement. Profit and loss figures were not submitted. An audited statement will be available when the audit currently in progress has been completed.

Discount Corporation

The annual reports to shareholders provide the following profit and loss information:

	<u>12/31/58</u>	<u>12/31/59</u>
Net Profits*	\$1,803,585	\$1,087,052
Dividends	1,600,000	950,000
Transfer to Undivided Profits	203,585	137,052

\* After provision for Taxes and Contingencies.

Aubrey G. Lanston and Co., Inc.

The composition of capital account at September 30, 1959 and the changes since December 31, 1958 are given in the tabulation below:

	<u>12/31/58</u>	<u>9/30/59</u>	<u>Change</u>
Class A Stock (\$10 par)	\$ 18,000	\$ 18,000	\$ -
Common Stock (\$1 par)	47,000	54,000	+ 7,000
Capital Surplus	13,000	248,750	+ 235,750
Earned Surplus	<u>5,772,277 (a)</u>	<u>6,508,136 (b)</u>	+ 735,859
Net Worth	<u>\$5,850,277</u>	<u>\$6,828,886</u>	<u>+\$978,609</u>
Adjustment to reflect planned purchase of 11,000 shares Common stock		- 1,387,320	
Adjusted Net Worth		<u>\$5,441,566</u>	<u>-\$408,711</u>

(a) Reflects unrealized appreciation of \$123,200.

(b) Reflects unrealized depreciation of \$586,000 ("after tax").

The increase in earned surplus of \$735,859 indicates profitable operations over the nine-month period. However, the increase in earned surplus during the eight-month period from April 30 to December 31, 1958 amounted to \$1,323,500. After giving effect to a contemplated purchase of 11,000 shares of \$1 par common stock from certain stockholders for the sum of \$1,387,320, net worth shows a reduction of \$408,711 between the two statement dates.

An asset item - Receivable under Repurchase Agreements - amounted to \$4,688,977 on September 30, 1959, as compared with \$3,233,249 on December 31, 1958. A footnote to the more recent balance sheet reads as follows:

"Represents the receivable for transactions on behalf of stockholders; the securities purchased have a market value of \$4,882,032."

A footnote to the balance sheet indicates that securities owned do not include Treasury bills having an average maturity of less than 86 days and Treasury notes having an average maturity of less than 284 days which were sold under contracts to repurchase. The amounts are not given but are understood to be substantial. The net adjusted valuation of these securities is stated to be \$986,000 less than trading cost which is reflected in the "after tax" adjustment to net worth in note (b) above.

C. F. Childs and Co., Inc.

No statement was provided concerning the company's earnings for 1959. An increase of \$437,000 in net worth probably reflects the addition of net earnings for the year.

New York Hanseatic Corporation

The information set forth below was taken from the Corporation's annual reports:

(thousands of dollars)

	<u>10/31/58</u>	<u>10/31/59</u>	<u>Change</u>
Capital Stock	1,200	1,200	-
Paid-in Surplus	807	807	-
Earned Surplus	906	1,022	+116
Reserve for Contingencies	<u>175</u>	<u>175</u>	<u>-</u>
	3,088	3,204	+116
Less Treasury Stock	<u>621</u>	<u>517</u>	<u>-104</u>
Net Worth	<u>2,467</u>	<u>2,687</u>	<u>+220</u>
Term notes due in over 1 year	<u>300</u>	<u>-</u>	<u>-300</u>
Capital Account	<u>2,767</u>	<u>2,687</u>	<u>- 80</u>

On January 5, 1960, officers of the Corporation indicated that the increase in earned surplus is after making provision for the addition of an undisclosed amount to hidden reserves. The firm's dealings in U. S. Government securities were said to have contributed very satisfactorily to net earnings and management has expressed satisfaction with the year's results.

D.W. Rich Discount Co., Inc.

D. W. Rich Discount Co., Inc., a wholly owned subsidiary of D. W. Rich & Co., Inc., was newly created on September 15, 1959 to do business only in Treasury bills. The newly formed company was added to the list of authorized brokers and dealers with whom we may transact business for the System Account, and the parent company, which will continue to do a small amount of business in U. S. Government securities other than Treasury bills, has been deleted from the list.

An unaudited balance sheet dated October 31, 1959 provides the following information relating to the composition of capital account:

Capital stock	\$250,000
Deficit	<u>12,000</u>
Net worth	\$238,000
Subordinated loan	<u>30,000</u>
Capital Account	<u>\$268,000</u>

Audit of the parent company as of the same date did not include the subsidiary which had been in business only two weeks. In the future audited statements of both the parent and subsidiary will be submitted.

Between October 31, 1958 and October 31, 1959 net worth of the parent company, D. W. Rich and Company, Inc., increased by \$255,000 to \$2,653,000. Working capital increased by \$206,000 to \$1,682,000. Not reflected in working capital is the investment in wholly owned investment holding companies of \$1,215,862, which includes \$774,987 carrying value of their capital stocks. This amount is approximately \$3,360,000 less than the aggregate net asset value of these subsidiaries at October 31, 1959, including listed securities at quoted market values approximating \$4,510,000. A year earlier the market value of these listed securities totaled \$3,957,000. A local bank, which holds the stock owned by the subsidiaries as collateral to loans to the subsidiaries totaling \$27,000, continues an agreement to advise us of any change in the stocks held by them. However, because our dealings are now with D. W. Rich Discount Co., Inc., we no longer possess a creditor's interest in the stock of the subsidiary owning the marketable stocks upon which we heretofore had relied for protection. We, however, have full confidence in the integrity of the company's president and his willingness to protect us through the value of the stocks on which we have been relying. In view of the changed circumstances we have been requiring slightly larger margins than heretofore on our repurchase contracts with the firm.

Briggs, Schaedle & Co., Inc.

In the fiscal year ended November 30, 1959, earned surplus increased about \$21,000, as compared with an increase of \$418,000 in the previous year. We are advised by the management that the company earned about \$225,000 prior to taxes, dividends and bonuses.

The sale of 189 shares of Class A common stock held in the Treasury and 311 new shares of \$1 par value provided \$30,196 additional capital, but

\$12,000 debentures were retired, bringing the net increase in capital account to a little less than \$40,000, as shown in the table below:

	<u>11/30/58</u>	<u>11/30/59</u>	<u>Change</u>
Capital	\$ 20,616	\$ 20,927	+\$ 311
Earned Surplus	1,043,705	1,065,097	+ 21,392
Paid-in Surplus	<u>21,890</u>	<u>46,105</u>	+ 24,215
	\$1,086,211	\$1,132,129	+\$45,918
Less Treas. Stock	<u>50,977</u>	<u>45,307</u>	- 5,670
Net Worth	<u>\$1,035,234</u>	<u>\$1,086,822</u>	+\$51,588
Debentures	<u>176,985</u>	<u>164,735</u>	- 12,250
Capital Account	<u>\$1,212,219</u>	<u>\$1,251,557</u>	+\$39,338

Wm. E. Pollock & Co., Inc.

No operating statement was submitted. Networth on December 31, 1959 amounted to \$1,144,814, \$89,000 more than on December 31, 1958. An increase in capital stock from \$134,900 to \$269,800 apparently reflects a 100 per cent stock dividend. A branch office in Miami, Florida, was opened during the year.

Bartow Leeds & Co.

Profit and loss figures were not furnished. However, a comparison of balance sheet data reveals a decline of \$82,000 in net worth for 1959.

Charles E. Quincey & Co.

This firm's balance sheet as of September 30, 1959 shows a net worth of \$858,000 after allowing \$68,000 for partners' estimated taxes on undistributed profits. This is a decrease of \$365,000 during the sixteen-month period from the most recent previous statement on May 31, 1958.

Summary

The capital positions of most dealers improved during 1959 apparently due to profitable operations. Bartow Leeds & Co. and Charles E. Quincey & Co. show declines in net worth which, with no information to the contrary, appear to reflect losses incurred between statement dates.

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COMPARATIVE SCHEDULE OF BALANCE SHEET DATA OF U. S. GOVERNMENT SECURITIES DEALERS  
(thousands of dollars)

	Statement Date	Net Worth*		Net Position in U. S. Government Securities					
		Amount	Change During Previous 12 Months	Total Portfolio	Due or Callable		Due or Callable Over 1 Year		Other Securities Owned
					1 - 5 Yrs.	Over 5 Yrs.	Total	Number Times Net Worth	
First Boston Corp. (a)	12/31/59	24,284(d)	+ 268	65,539	11,200	- 200	11,000	.5	23,345
C. J. Devine & Co. (b)	12/31/59	16,767(e)	+ 293	81,268	4,525	-2,100	2,425	.1	24,109
Salomon Bros. & Hutzler (a)	12/31/59	12,464(f)	+ 203(g)	179,500	44,800	8,800	53,600	4.3	95,400
Discount Corp.	12/31/59	8,665	+ 137	70,961	8,200	-4,300	3,900	.5	-
Aubrey G. Lanston & Co., Inc.	9/30/59	5,442(h)	- 408(i)	154,429	3,707	2,634	6,341	1.2	4,600
C. F. Childs & Co., Inc. (b)	12/31/59	4,820	+ 437	54,172(j)	3,100	- 300	2,800	.6	(j)
N. Y. Hanseatic Corp. (a)	10/31/59	2,687(k)	- 80(l)	46,920	4,000	1,500	5,500	2.0	11,999
D. W. Rich Discount Co., Inc. (c)	10/31/59	268(m)	(n)	11,876	-	-	-	-	-
Briggs, Schaedle & Co., Inc.	11/30/59	1,252(o)	+ 40	7,545	4,800	700	5,500	4.4	7,800
Wm. E. Pollock & Co., Inc. (a)	12/31/59	1,145	+ 89	13,674	3,510	200	3,710	3.2	947
Bartow Leeds & Co. (b)	11/30/59	351	- 82	9,975	7,296	137	7,433	21.2	1,009
Charles E. Quincey & Co.	9/30/59	858	- 365(p)	10,530	- 500	- 200	- 700	.8	-

\* Or adjusted capital accounts.

- (a) Also general dealer in securities other than U.S. Government securities.
- (b) Also dealers in municipal bonds.
- (c) Created to deal in Treasury Bills only.
- (d) Includes \$1,975,000 reserve for contingencies.
- (e) Includes \$303,000 unrealized appreciation.
- (f) Includes \$2,250,000 reserves available as capital.
- (g) Change since April 30, 1959 (eight months).
- (h) Adjusted to reflect "after tax" reduction of \$586,000 in earned surplus and planned payment of \$1,387,320 for 11,000 shares of the company's stock.

- (i) Change since December 31, 1958 (nine months).
- (j) Not segregated, but said to consist principally of U. S. Government securities - an informal report shows \$58 million U. S. Government securities.
- (k) Includes \$175,000 reserve for contingencies.
- (l) Change reflects exclusion of \$300,000 notes from capital account because they now mature within one year.
- (m) Includes \$30,000 subordinated loan.
- (n) Subsidiary of D.W. Rich & Co., Inc. organized September 15, 1959.
- (o) Includes \$165,000 debentures due in over one year.
- (p) Change since May 31, 1958 (sixteen months).

Federal Reserve Bank of New York  
Securities Department  
May 2, 1960