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FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N. Y. 10045

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July 16, 1964

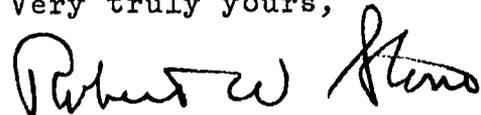
Mr. Ralph A. Young, Secretary,
Federal Open Market Committee,
Board of Governors of the
Federal Reserve System,
Washington, D.C. 20551

Dear Mr. Young:

Enclosed are ten copies of a memorandum relating to the financial condition and operating results for the year 1963 of twelve of the thirteen nonbank dealers in United States Government securities with which business for the System Open Market Account is transacted. Information relating to the remaining dealer will be furnished when available.

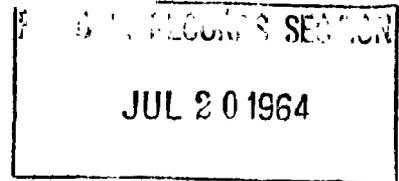
This memorandum is being sent to each member of the Federal Open Market Committee, as well as to the presidents of the Federal Reserve Banks not presently represented on the Committee.

Very truly yours,



Robert W. Stone, Manager,
System Open Market Account.

Enclosures



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Financial and Operating Data
United States Government Securities Dealers
Year 1963

Information taken from balance sheets and reports to stockholders submitted by twelve of the thirteen nonbank dealers with which the Federal Reserve Bank of New York transacts business for the System Open Market Account is shown in the attached statement entitled "Comparative Schedule of Balance Sheet Data of U. S. Government Securities Dealers".

On May 13, 1964, C. J. Devine & Co. was deleted and Merrill Lynch, Pierce, Fenner and Smith, Inc. was added to the list of dealers trading with the System Account in recognition of the consolidation of the two firms on that date. A supplementary report will be furnished upon receipt of a statement of condition from Merrill Lynch, Pierce, Fenner and Smith, Inc. reflecting the consolidation.

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

Blyth & Co., Inc.

Profit and loss figures were not submitted. Net worth of \$30,601,000 at December 31, 1963 showed an increase of \$2,224,000 for the fiscal year. This compares with a decrease of \$1,866,000 in the year ended December 31, 1962. Blyth & Co. is of course engaged in a wide variety of activities in the investment field, and the changes in net worth indicated above reflect the consolidated result of all those activities.

Briggs, Schaedle & Co., Inc.

A reconciliation of changes in capital accounts was not provided. However, the firm's balance sheet showed a reduction of \$20,000 in earned

surplus, although net worth declined only \$11,000. The sale of 535 additional shares of common stock (\$1 par) accounted for most of the difference. Capital account items from the firm's balance sheet appear below:

(thousands of dollars)

	<u>11/30/62</u>	<u>11/30/63</u>	<u>Change</u>
Capital	60	60	-
Earned Surplus	1,682	1,662	- 20
Paid-in Surplus	<u>102</u>	<u>118</u>	<u>+ 16</u>
	1,844	1,840	- 4
Less Treasury Stock	<u>1</u>	<u>8</u>	<u>- 7</u>
Net Worth	1,843	1,832	- 11
Debentures	<u>230</u>	<u>208</u>	<u>- 22</u>
Capital Account	<u>2,073</u>	<u>2,040</u>	<u>- 33</u>

C. F. Childs & Co., Inc.

Profit and loss figures were not submitted. However, the balance sheet as of December 31, 1963 showed a decline for the year of \$1,079,000 in retained earnings.

The firm's net worth has declined sharply during the past three years, from \$5,135,000 on December 31, 1960 to \$3,229,000 (including \$224,000 subordinated debentures) on December 31, 1963, due largely to operating losses. During the same period, working capital showed a greater decline, from \$4,147,000 to \$1,408,000. The firm's management stated that the concentration of operations in Government securities at the New York office and other organizational changes in 1963 have reduced expenses and it is hoped that the reorganization will produce profitable operations in Government securities. Over the past two years the firm has expanded its activities outside the securities business through investments in and advances to subsidiaries engaged in

such ventures as real estate and importing. This largely accounts for the reduction in working capital and for some of the operating losses. The management states that these activities are being curtailed.

Discount Corporation

The table below shows data taken from the Corporation's annual reports:

(thousands of dollars)

	<u>12/31/62</u>	<u>12/31/63</u>	<u>Change</u>
Net Profits*	677	379	- 298
Dividends	600	500	- 100
Transfer to Undivided Profits	77	- 121	- 198

* After provision for taxes and contingencies.

The Corporation stated in its 1963 report to shareholders that earnings in the first three quarters of 1963 compared closely with 1962, but that adverse results in the final quarter curtailed the total earnings for the year. The Corporation also advised its shareholders that steps had been taken to extend its dealer operations to include Federal agency obligations.

First Boston Corporation

The reconciliation of surplus included in the annual reports to stockholders shows the following operating results:

(thousands of dollars)

	<u>1962</u>	<u>1963</u>	<u>Change</u>
Net income before dividends	2,942	2,527	- 415
Dividends	2,674	2,256	- 418

The Corporation stated in its annual report that "results for 1963 reflect a reduction in trading activities in Government, municipal and corporate

securities due to decreased volume in all over-the-counter markets". The report did not segregate the net income obtained from the Corporation's operations in U. S. Government securities or from underwriting and trading in other securities, but it did indicate that all departments contributed to net earnings for the year.

New York Hanseatic Corporation

The firm's management advises that the decline of \$259,000 in earned surplus during the fiscal year ended October 31, 1963 was due mainly to losses from trading in securities other than Government securities. In addition to the decline in earned surplus, it appears that \$225,000 carried in a reserve for contingencies on October 31, 1962 was used to absorb losses. It was indicated that trading in Government securities showed a modest profit for the year. The table shown below reflects the changes in capital account items between statement dates:

(thousands of dollars)

	<u>10/31/62</u>	<u>10/31/63</u>	<u>Change</u>
Capital Stock	2,000	2,000	-
Earned Surplus	1,526	1,267	- 259
Reserve for Contingencies	<u>225</u>	<u>-</u>	<u>- 225</u>
	3,751	3,267	- 484
Less Treasury Stock	<u>254</u>	<u>254</u>	<u>-</u>
Net Worth	3,497	3,013	- 484
Debentures	<u>1,850*</u>	<u>1,850*</u>	<u>-</u>
	<u>5,347</u>	<u>4,863</u>	<u>- 484</u>

* Mature November 1970 but are payable upon 180 days written notice.

Wm. E. Pollock & Co., Inc.

A reconciliation of the firm's surplus accounts incorporated in the balance sheet showed a net profit of \$28,700 for the fiscal year ended November 30, 1963.

Chas. E. Quincey & Co.

No profit and loss figures were submitted. The balance sheet as of September 30, 1963 showed a net worth of \$1,289,000, an increase of \$70,000 in the fourteen-month period since the previous statement of condition.

D. W. Rich Discount Co., Inc.

D. W. Rich Discount Co., Inc., a wholly owned subsidiary of D. W. Rich & Co., Inc., showed net worth of \$774,000 at October 31, 1963 as compared to \$750,000 shown on the previous statement. The increase of \$24,000 appears on the balance sheet as "Paid-in (contributed) capital" which the firm's accountants stated was "after deducting net loss for the year ending October 31, 1963." Management stated that the firm lost about \$250,000 in its operations during the year, but that the principal stockholder contributed enough additional capital to compensate for the loss.

D. W. Rich & Co., Inc., the parent company, showed an increase of \$300,000 in net worth to \$4,229,000. Working capital increased from \$2,425,000 to \$3,678,000. Profit and loss figures were not submitted, but a liability item provided \$186,000 for Federal income taxes.

Salomon Brothers & Hutzler

Profit and loss figures were not submitted. The decrease in net worth of \$1,670,000, from \$19,649,000 on March 31, 1963 to \$17,979,000 on December 31, 1963, was due mainly to provision for partners' income tax payments. In the March 31, 1963 statement all earnings from the start of

the firm's fiscal year, October 1, 1962, had been added to net worth without provision for the partners' income tax liabilities. In the December 31, 1963 statement withdrawals had been made from net worth to cover partners' tax liabilities on earnings up to October 1, 1963.

Second District Securities Co., Inc.

Second District Securities Co., Inc. is an affiliate of M. A. Schapiro & Co., Inc., a leading dealer in bank stocks. The firm's statement of income and expenses for the fiscal year ended January 31, 1964 shows a net operating loss of \$655,000 after tax payments but before a refund of Federal income taxes in the amount of \$500,000. A statement dated February 29, 1964, one month later, shows an increase in net worth of \$398,000 from \$3,807,000 on January 31 to \$4,205,000 on February 29 due, we understand, to realizing some of the unrealized appreciation shown on the earlier statement.

Aubrey G. Lanston and Company, Inc.

The corporation's management advised us that gross profits for the fiscal year ended April 30, 1964 were about \$1 million, of which about half was paid out in taxes and most of the balance as dividends to stockholders. Net worth totaled \$9,359,000 on the latest balance sheet, about \$13,000 higher for the year.

The firm's position in U. S. Government securities shown in the attached schedule of balance sheet data does not include \$475 million Treasury bills sold under long-term repurchase agreement. Upon the maturity of the contracts, the remaining maturity of the bills ranges from 17 days to 107 days with an average of about 59 days. The firm's management stated that it had tested the risk in these contracts against possible changes in the discount rate to 3 3/4 and 4 per cent (with associated rises in other money rates), and found that there should be very little loss involved.

Summary

Operating results in 1963 were not as satisfactory as in the previous year. In 1962 most dealers showed improvement in capital accounts with C. F. Childs and Blyth & Co. the only firms showing losses between statement dates. In the past year, available information indicates that five dealers incurred losses, including New York Hanseatic Corporation which reported, as indicated earlier, that losses were incurred in other than Government securities, which more than offset the modest profit earned in Treasury issues. The four other dealer firms that appear to have incurred losses are Briggs, Schaedle & Co., Inc., C. F. Childs & Co., Inc., D. W. Rich Discount Co., Inc., and Second District Securities Co., Inc.

Att.

Federal Reserve Bank of New York
Securities Department
July 15, 1964

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

	Statement Date	Net Worth*		Long Position		Short Position	Basis of Valuation
		Amount	Change During Previous 12 Months	U.S. Government & Agency Secs.	Other Secs.		
Blyth & Co., Inc. (a)	12/31/63	30,601 (d)	+ 2,224	189,916	26,560	25,978	Lower of cost or market
Briggs, Schaedle & Co., Inc.	11/30/63	2,040 (e)	- 33	52,591	-	3,570	Market
C. F. Childs & Co., Inc. (b)	12/31/63	3,229 (f)	- 1,079	39,438 (g)	(g)	18,282	Market
Discount Corporation	12/31/63	8,812	- 122	114,026	-	-	Market or less
First Boston Corp. (a)	12/31/63	25,452 (h)	+ 271	262,051	47,150	44,416	Market
N. Y. Hanseatic Corp. (a)	10/31/63	3,013 (i)	- 484	62,302	11,194	7,160	Long-Below market Short-Selling price
Wm. E. Pollock & Co., Inc. (a)	11/30/63	1,647	+ 24	28,880	1,092	-	Lower of cost or market
Charles E. Quincey & Co. (a)	9/30/63	1,289	+ 70 (j)	35,351	1,077	1,726	Market
D. W. Rich Discount Co., Inc. (c)	10/31/63	774	+ 24	40,848	516	-	Lower of cost or market
Salomon Brothers & Hutzler (a)	12/31/63	17,979	- 1,670 (k)	402,090	94,219	145,781	Market
Second District Sec. Co., Inc. (a)	1/31/64	3,807 (l)	- 201	380,670	7,568	24,799	Lower of cost or market
Aubrey G. Lanston & Co., Inc.	4/30/64	9,359	+ 13	373,869	-	6,795	Cost

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- * Or adjusted capital accounts.
- (a) Also general dealer in securities other than U.S. Government securities.
- (b) Also dealer in municipal bonds.
- (c) Created to deal in Treasury bills only.
- (d) Includes \$596,000 reserve for contingencies.
- (e) Includes \$208,000 debentures due in over one year.
- (f) Includes \$224,000 debentures due in over one year.
- (g) Not segregated, but believed to consist principally of U.S. Government securities.
- (h) Includes \$1,975,000 reserve for contingencies.

- (i) Does not include \$1,850,000 debenture bonds due November 1970 (payable on demand on 180 days written notice).
- (j) Change since July 31, 1962 (fourteen months).
- (k) Change since March 31, 1963 (nine months).
- (l) Does not include \$3,657,000 unrealized appreciation after allowance for applicable Federal and State taxes.

Federal Reserve Bank of New York
 Securities Department
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