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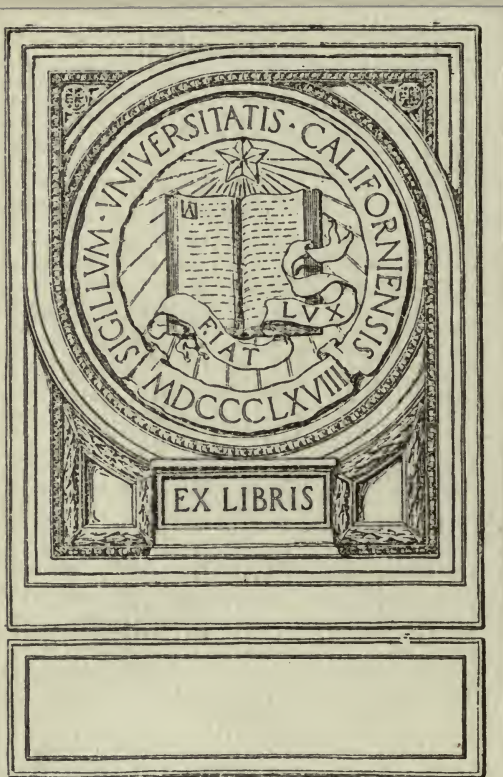
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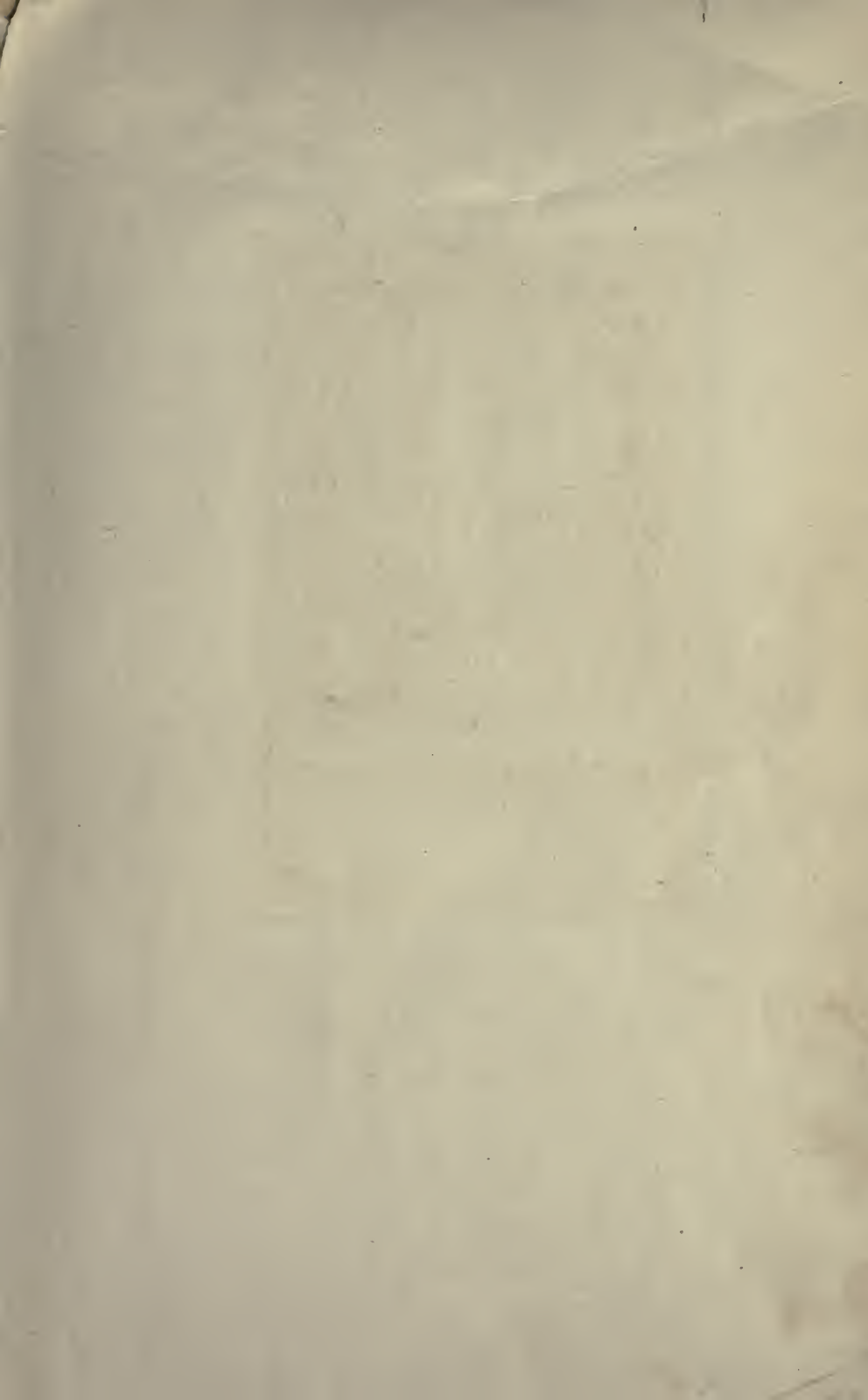
You and Your Broker

YOUR DUTIES AND RIGHTS AS CUSTOMER
HIS OBLIGATIONS TO YOU AS AN AGENT

*A Handbook for investors and Traders which
Explains the Terms and
the Methods of Brokerage*

COMPILED FROM ARTICLES WHICH HAVE
APPEARED IN THE MAGAZINE OF WALL STREET





FOREWORD



HIS booklet is compiled solely for the purpose of educating the broker's client in the intricacies of the brokerage business. There are so many chances for misunderstandings between broker and client, that much of the broker's time is occupied in explanation, and, on the other hand, the customer, not understanding the reasons for certain acts on the part of the broker, decides without due consideration, that he is being taken advantage of. The various chapters in this booklet cover all the recognized subjects of controversy.

In addition, the addenda contains the rules for transfer and delivery, which in the past have been very acceptable to the managers of branch offices and correspondents.

All the information given has appeared in The Magazine of Wall Street at various times. That which was in some of the older numbers has been brought up to date to apply to present conditions in the business.

It is especially valuable for the investor or the trader, as it is the only compilation which goes into the subject from the viewpoint of both client and broker.

In the case where the illustrations do not conform to the particular method of the broker, the basic principles are set forth, so as to be applicable to every situation.

Articles and arrangement by
ROBERT L. SMITLEY.

Regulations covering transfer of stocks and bonds by permission of James L. Mayberry.

THE
MAGAZINE OF
WALL STREET

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Choosing Your Broker

THE majority of customers of brokerage firms know very little about the firms with which they do business. In most cases, the customer becomes a client on account of his personal acquaintance with the manager or one of the partners; because he is attracted by an advertisement or market letter; because the firm has a reputation for making money for its customers; or the association might come about through banking connections. It makes but little difference how the customer happened to become a client, he should know all there is to know about the firm with which he is dealing.

Safety First

No sane man deposits his money in a bank until he has made a study of the officers and directors of the bank, noted its latest statements, and assured himself that the bank is a very strong institution. And it is a peculiar fact that very few if any, sane men ever take the precaution to investigate their brokers.

It is a known fact that the firms with large capital, whose business is very large know about the "pools" and the incidentals of some particular stock before the movement up or down is apt to begin. Many of these large firms apportion a participation for each of their customers in these "good things" and it is the desire of every trader to belong to such a clientele. This particular service of the larger firm may offset the desire for the more personal service of the smaller firm.

The Matter of Personality

Personality often enters into the relation of broker and client to an undesirable degree so far as the interests of the client are concerned. When a client is placing his money for banking, speculation or investment, it is the duty of such client to make an impersonal investigation. He may find that the most unattractive personality offers the safest service and the best information. Neither incorporation of the exchanges, or any governmental control will help the client in solving this problem. He must do it for himself. The old rule, "Let the buyer beware," is as important in the selection of a broker as in any other form of business.

Suggestions to Follow

The following are a few general suggestions for the client to follow in the investigations as to where it is best to open an account:

1. Decide, according to the nature of the proposed business, whether you desire personal attention with a small firm, or the advantages of a large firm.
2. If the intention is to carry large debit balances in the account, the large firm is preferable.
3. An investigation of the personality of the members of the firm is very necessary. Are they big spenders, or noted as heavy speculators, or are they conservative with good moral reputations and accredited with the ability of discerning financial acumen?

4. How do they treat their employees? Are they well paid and do they work under good physical conditions?

5. What kind of a man is the customer's manager?

6. Is the firm rated with the financial agencies, such as Dun's or Bradstreet's and what is the general opinion of its resources among its competitors? What do the partners tell you about the approximate capital which is invested in the business?

7. What are the facilities for keeping the customers well informed? Does the firm keep up to date in its subscriptions with the financial magazines, the news bureaus, the statistical agencies, and general business conditions? Will the customer be informed regularly regarding dividend periods, assessments reorganizations and other important data, or will the customer be permitted to wander through the financial mazes alone?

8. Is the detail of the office so well organized that the client may get information about his account at once and with accuracy?

9. Has the firm such connections as will enable it to at once locate the best markets, get the earliest data regarding new market movements, and secure participation in new and good investments and speculations?

10. Will the firm permit trading with inadequate margin—the greatest of all financial sins—and will the rules ever permit an account to fall below a ten per cent. basis?

11. Does the firm enjoy easy access to all good markets for the purchase or sale of securities, or does it have to charge an extra commission to effect a proper execution of orders?

12. Is the "Floor Member" efficient, always at his post, reporting your transactions at once, or will you suffer delay? Does the ticker, or official report of transactions, correspond with the reports of your broker?

13. When you have stocks or bonds paid for, does your broker put them in an envelope marked as your personal property until such a time as you contract a debit account with him, or does he use what you own "outright" to carry on his business?

14. What is the character and standing of the other customers whom you may happen to meet? Are they investors, speculators, or chance takers?

Ask the above questions, and more of a like nature, if you desire, but always remember the old motto, "Caveat Emptor."

Transfer of Securities

The old saying that "Possession is nine points of the law," was and is never more applicable than in the case of owners of stocks and bonds. There are few, however, who realize just what "possession" means in this case. The fact that one may have the actual securities in his safe deposit vault or have his broker's account show him to own such securities, is not nearly so determinate a meaning of the word as when the securities are actually registered in his name and such registry appears upon the books of the company.

Whenever securities are really owned, they should, without exception, be transferred on the books of the company and registered on their face in the name of the owner.

If a controversy should occur between broker and client, the broker has the burden of proof on his shoulders in making any claim; for the company recognizes as owner only the name on its books, corresponding to the number on the certificate. If the owner neglects to have the stock transferred to his own name the legal burden of proof rests with him. It is universally recognized that the defendant in any action, whether of a legal or merely arbitrary nature, has the advantage of the aggressor. The registration of securities, therefore, is a distinct insurance in favor of the owner, and it does not cost him one cent.

Penalty of Non-Transference

The brokerage clerk will tell any stock owner that about the most difficult feature of his work is to collect dividends for customers who have refused or neglected to have the certificates transferred. An instance recently occurred in the case of a holder of Nipissing Mines stock. A customer held two thousand shares and received it from his broker just before the dividend paid previous to that declared as of December 31, 1915. The certificates were in forty or more different names, all unknown to the present holder. The company paid the dividend to its registered holder, not recognizing the real owner, because the latter had not transferred the stock. The owner realized his misfortune too late, for the company will not collect the dividends for him. The broker succeeded in collecting all except for two hundred and twenty shares. The owner of two hundred shares had disappeared in Alaska and the twenty share man could not be found at any registered address.

It should not be necessary to point out the moral in the above case. To make matters worse, the broker always charges a commission of one per cent. of the dividend when he does collect for the client. Suppose the stock had been American Tobacco, which pays 5 per cent. quarterly. The loss to the owner would have been in the nature of a disaster.

Chances In Not Transferring

The chances in not transferring non-dividend stocks—that is the chances for loss—are not so great; nor do they come often, but when they do come they are serious. An example is the case of the Wabash stocks, before the recent re-organization. Let it be supposed that Brown owned 500 Wabash common. He knew that the stock did not pay a dividend and never would, so he never bothered to have it transferred to his name. When

Wabash went into the receiver class, Brown was in British Columbia, or very ill in a hospital. The company sent out announcements and the receiver sent out his plan for re-organization to the *registered* stockholders of the 500 shares but nary a word did Brown see. In consequence he did not pay his assessments or go into the new company and his stock became worthless. (It so happened that in the Wabash case it was cheaper for the owner to allow his holdings to pass as worthless and buy the "when issued" stock), but this was not the case in the Missouri Pacific situation or many others. There are some non-dividend paying stocks which combine with other concerns and issue rights. Unless the owner is accustomed to scan all newspaper advertisements and to frequent brokerage offices, he stands a chance of missing a valuable document from the company, unless the stock is in his name. Recent instances of this nature are the Driggs Seabury-Savage Arms combine and the United Fruit Co. rights. How many owners of Braden Copper, who have neglected to transfer the stock, could tell just how much Kennecott or cash they were entitled to? How many holders of Guggenheim stock could tell how much Kennecott, cash, Smelters, Ray and Chino they should get, or how much cash was left with the company representing equity in their stock? The importance of registering every share of stock owned in the owner's name cannot be emphasized too strongly.

Sanitary Considerations

Before leaving this phase of the subject, there is one other element which should induce every owner to register stock in his name. It is that of cleanliness and newness. A clean, new certificate, without powers-of-attorney stamped all over its back, is a much better possession than a dirty crumpled, indistinct piece of parchment, on which the reading is recognized with difficulty. This feature is an added phase of the insurance.

In Case of Death

The owner must desire to protect his heirs in case of death. Not long ago the owner of 100 shares of a non-dividend paying stock brought it to a broker for sale. He had held the stock for a period of five years, and as the stock did not pay a dividend and never promised to, had not transferred it to his own name. When the broker made delivery of the stock to the purchaser, the latter at once recognized the name in which the certificate stood to be that of one of the Wright brothers who had died some months previously.

It required many months of legal red tape to elapse before the real owner could get his money from the sale. This is but one of the pitfalls for the careless owner. If he had died also, in the above case, the complications would have been serious. Transfer the stock to your own name *at once* and sign it, in blank, on the back, if you wish to make things easy for either yourself or your heirs.

In Case of Sale

A fourth kind of insurance by having stock in your name is in the matter of the sale. There is no question then as to forgery, and no doubt as to the right of the individual, on the face of facts, to dispose of the security in any way that he sees fit to do so. It is only a few years ago that the newspapers were full of the accounts of the forgery of some Laclede Gas stock. It is easy to imagine an innocent purchaser having one

of these forged certificates delivered to him on a purchase, not selling it for five years, and then having the purchaser find it to be a forgery. If he had made efforts to have the stock transferred at once to his own name, the loss, if any, would not fall upon him; for he could at once return the stock to his broker, who has ten days in which to return a "bad" delivery to the original seller, before he can be forced to participate in any loss of this nature.

Lost Certificates

But there is a fifth kind of insurance and really a very important one: lost certificates. How much easier it is to get a new certificate from the company if it is lost in the owner's name, than if lost in someone else's name! The various corporations have different rules in the matter of a lost certificate, but in a general way they are: notification to the transfer office to have the transfer stopped; notification to the various exchanges on which the stock is traded; advertisements in various newspapers, and finally a bond covering double the value of the certificate.

These rules are easily complied with in case the stock is in the owner's name. If it is not, proof of legal ownership must be rigidly established, the owner must notify the registered owner, even if he be in the trenches in Flanders, and various other legal steps must be observed in addition to the ordinary usages. It is inconceivable how any owner of stock can refrain from having the securities transferred at once to his own name, after realizing the chances he takes in not doing so.

Matter of Expense

The large odd lot brokerage firms have forced the general brokerage firms to accept stock sold to them by transfer. This uses up the original sales tickets on which the revenue stamps are affixed. Unless the customer permits the broker to give his—the customer's name—to the seller, the stock will be delivered to the broker in the broker's name. If at a later date the customer instructs his broker to transfer the stock to his own name from that of the broker's, additional revenue stamps are required.

The stock exchange does not permit the broker to pay for these additional stamps, so that a second charge must fall upon the customer. It is therefore advisable for the customer, if he intends to pay for the stock, to have it transferred to his own name immediately upon information of the purchase by his broker. This is a very important feature of the brokerage work in Wall Street today but very few customers take advantage of the situation and delay in instructing the broker to use their names. If all such cash customers lived up to their duty, which duty is to their own advantage, the broker and customer would be better satisfied. This act upon the part of the customer also insures him against the so-called "bucketing" of his orders in a questionable broker's office, and insures him against any loss in case of the failure of the firm with which he is dealing.

The situation in bonds is somewhat distinct from that of stocks, because there is always a better market for bearer, coupon bonds than for registered bonds. But there is also a way for protection in bonds in most cases. Almost all issues of bonds provide for the registering of the principal only. The broker can take any ordinary coupon, bearer bond purchased and have the principal of the bond registered. The coupons remain as they

were, bearer coupons. The owner may then fill out a separate bond power to cover this particular bond, and before its sale have the bond re-transferred to "Bearer," to make it a bearer bond for delivery. Bearer bonds are, by far, more negotiable than stock certificates.

There is, therefore, more reason why protection should be sought in this class of investment than in other forms of securities. Economically, a bond is a negotiable instrument, while a stock is not, but the endorsement of the stock in blank has made the stock to all intents and purposes a negotiable instrument in Wall Street procedure. But in purely legal procedure, the bond is easier to transfer as property. There are no taxes to pay in either transferring the principal of the bond to a name or back to bearer, other than the inheritance tax in case of the owner's death. It is therefore advisable for the investor to insure himself against forgery, theft and loss by registering the principal of his bonds.

Read Your Certificates

How many owners, on receiving a certificate of stock, read all that is printed thereon? Very few. This should never be neglected. During the recent rise in the International Mercantile Marine stocks, innumerable people sold what they thought was stock only to find out on presentation of the certificate to their brokers that it was Voting Trust Certificates which they owned. Delays therefore ensued, while the broker sent the stock to the Hudson Trust Co. at Hoboken, N. J., for exchange and the customer was compelled to pay a double Federal tax before his sale could be made.

Is your purchase callable at a price far below that at which it was purchased, as in the case of the Supulpa Oil Pfd. shares formerly traded in on the New York curb? Is it a voting trust certificate? Is it only a temporary certificate exchangeable for definitive certificates at a later date? Was it purchased with a syndicate and is it "Withdrawn from Sale" or not? Many an investor thinks he has something and finds he has nothing. There are today in existence Montana Power Co. installment stocks which have no value until certain contracts materialize, and these may never materialize. It is possible to deliver one of these certificates to a purchaser who thinks he has bought regular common stock. Unless he reads very carefully, he may find himself saddled with a loss. Read and understand everything printed on a certificate of stock and read every word of the body of the bond.

Some Rules to Follow

Valuable suggestions for the investor are:

- ✓(1) *Have the stock registered in your name at the time of purchase.*
- (2) *Read the body of the certificate with care and understanding.*
- (3) *Be sure and ask for and send in a dividend order to the transfer office.*
- (4) *Register the principal of your bonds whenever permissible.*
- ✗(5) *Collect all official data sent out by the company and put it away with your security, after you have read and digested it.*
- (6) *Understand the purpose and value of your rights when offered by the company.*

The above rules carefully followed, will give to you all to which you are entitled and are an insurance, without expense, against theft, loss and forgery.

Loaning Rates on Securities

UNLESS one has been actively engaged in all phases of the brokerage business, the question of interest rates is usually an enigma. Furthermore, it is difficult to explain in just ordinary words because so many technical features enter into the subject. The inquiry department of The Magazine of Wall Street has had hundreds of inquiries on interest matters and this article, in a measure, is a general reply to all these inquiries.

The subject had best be divided into three captions and each one discussed separately: Call and Time rates, Stock rates, and the Brokers' rates.

Call Money

The so-called renewal rate for call money which is published in the daily newspapers, has really very little to do with the actual situation except to determine a sort of "clearing rate" for the day. Money may open, be lent, on the Stock Exchange at about 11:30 a. m. at 2 per cent. and possibly a million dollars may pass from the bank to broker at this rate. The renewal rate is then established and communicated to all those interested. The broker may be borrowing from ten to fifty million dollars from many financial institutions, and he at once tries to renew his call loans at 2 per cent. If these loans had been standing at 3 per cent. the day previous, it is barely possible that one million out of ten will reduce to the renewal. The rest continue to stand at above 3 per cent., or 3 per cent., or may be $2\frac{1}{2}$ per cent. But, if the broker's customers are carrying many industrial stocks, he will have to make special loans, and all industrial loans average from $\frac{1}{2}$ per cent. to 1 per cent. above the renewal. The banks all know that it would be impossible for the broker to pay all loans which do not renew at the renewal rate, and even if the broker tried to pay them, the sudden demand for money would force the rate up higher than before. In addition to this feature, many financial institutions do not loan above 6 per cent., notably the National City bank. After a period of high money, these banks do not reduce their interest so rapidly, although they may put out new money at the prevailing rate.

The Average

A typical day's average for the broker on the first or second day of 2 per cent. money is as follows, basis ten million:

\$500,000 odd lots (less than 100 shares for each collateral) at $3\frac{1}{2}$ per cent.
\$1,000,000 special loan, possibly on active curb stocks at 3 per cent.
\$3,000,000 industrial money at 3 per cent.
\$1,000,000 industrial money at $2\frac{1}{2}$ per cent.
\$2,000,000 regular money not marked down, at $2\frac{1}{2}$ per cent.
\$3,500,000 regular money at renewal at 2 per cent.

The average, therefore, is 2.825 per cent., which is quite a difference from the renewal rate quoted in the newspapers.

All brokers find it to their advantage to protect themselves and their customers by taking about $\frac{1}{4}$ to 1-3 of their money on time at a specified rate. This prevents sudden calling of too many loans and is a kind of insurance for the general average if money should be very high on the

call. If the broker at the present time, averages his \$3,000,000 time money, part of which will no doubt be "industrial or special" at about $3\frac{3}{4}$, he will be doing very well. The reader's attention is called to the fact that a regular loan usually consists of 60 per cent. rails, full 100 share lots and 40 per cent. good industrials, full 100 share lots.

The above time money may range all the way from 5 per cent. down to 3 per cent. and the broker's average now, in connection with call money would be a combination of the two elements, or 3.04 per cent., on a day when money renewed at 2 per cent.

But there is yet another element. Many customers deal in curb or outside securities which the banks will never admit to loans. It is therefore imperative that the broker loan the customer the money. The broker never values his money less than 6 per cent., and if his capital amounts to \$2,000,000, this third element must be averaged in with the former. On the above basis, the real average for the day would be 3.433 per cent., and money renewed on the Stock Exchange at 2 per cent.

The Bank's Position

There is a clique of banks furnishing funds to brokers whose loan clerks confer daily to establish their own renewal, notwithstanding what the Exchange renewals may be. There are other banks which never loan below $2\frac{1}{2}$ per cent., and yet others whose minimum is 3 per cent. For the large borrower, it is necessary to deal with these high priced banks, as it is only possible for a bank to loan one firm a specified amount based on its capital. In all, there are only about seventy-five financial institutions in New York loaning call money, but when the call rate reaches 4 per cent. and 5 per cent. out of town banks like the Continental and Commercial of Chicago, the Union Trust Co. of Pittsburgh and hundreds of others enter the field, either direct or through New York correspondents.

Stock Loans

In accordance with the rules prevalent in New York, deliveries of sales of stock must be made before 2:15 p. m. the following day, except in the case of Friday sale, when delivery is made on the following Monday. If the sale is a "short" one, if the stock is coming from out of town or from abroad, or for any other reason which prevents actual delivery of the certificate sold, the broker must borrow it. The business of loaning stocks is kept up on the floor of the exchange from 9:45 a. m. to 3:30 p. m. This is sometimes the salvation of a firm with inadequate capital, or one doing more business than its capital should permit. The lender gets market value for the stock lent and it is kept at market value during the period of the loan. The lender of the stock pays interest on the money he receives, except in certain exceptional cases, and he does not have to put up 20 per cent. margin from his capital.

If the stock lent is an active one and there is plenty about the "street," the lender will pay the renewal rate of call money for the day on the total sum he has received from the borrower. If the supply of the stock is very low, the rate decreases in a ratio governed by supply and demand. For a very inactive stock like National Biscuit or Sears Roebuck, the rate would probably be "flat." The lender of the stock gets the use of the money without paying any interest. When a real large short interest, or an artificial one, appears in a stock it very often loans at a premium. In other

words, the lender not only gets the use of his money free, but gets a bonus for lending his stock. The premium usually runs by the day and is based on the par of funds. The usual premiums run from $\frac{1}{4}$ per cent., or \$25 per day per 100 shares to 1-256% or a little over thirty-nine cents per day per 100 shares. Sundays are never counted in computing premiums and it is the custom now to omit Saturdays from a charge day.

The loaning rate of stocks, like the renewal rate of call money does not always represent the true condition of the short interest in a stock. It is very likely that the recent premiums on New Haven and Industrial Alcohol did represent a large short interest, for the floating supply of these two stocks were not large at times. The writer recalls a time when certain large speculators were carrying thousands of shares of Amalgamated Copper, but even after selling these shares they were not delivered and the brokers openly borrowed fifty thousand shares at one time. Many firms do not like to show their actual position in the market and arrangements to borrow are made privately. Not many weeks ago a certain Stock Exchange firm borrowed thirty thousand shares of Steel common by arrangement over the telephone wire.

Risks

There are many risks for the firm lending stocks. A sudden rise in the market may cause a failure to the borrower and the stocks would have to be bought in "under the rule" at a much higher price and therefore a loss. But several large firms make it a practice to loan stocks only when the rate is low, flat or at a premium. One large firm saves between fourteen and fifteen thousand dollars each year by taking advantage of this situation.

The Customer's Status

The general custom is to give the owner of stock, which is loaned at a premium, the full premium. The firm does not get, or should not get this advantage. In the case of short interest accruing from stock borrowed for a short account, the customer rarely gets any profit from this, unless the short sales are very large when he may demand that his broker divide the short interest on a basis of $\frac{1}{2}$ or 1-3 to the customer. Very few customers, however, take advantage of their opportunities to make money through short interest.

The margin account of a customer is usually charged from $\frac{1}{2}\%$ to 4% above the average cost of money to the firm. In addition to this, few customers realize that they are paying compound interest on a monthly basis. The interest charge on an account is determined by these elements: the average cost to the firm for the month, the added increment to pay for handling the account, and the class of stocks carried. If the customer is carrying an account made up of 100 share lots, half active rails and half active industrials, he will be charged the minimum rate by his broker; if he is carrying various odd lots, he may pay $\frac{1}{2}$ to 1% more; if it is all industrial, the rate will probably be $\frac{1}{2}\%$ more than the minimum, but if the account consists of inactive issues or unborrowable curb issues, the minimum will be 6%, and if money has ruled high for the month, may be more than 6%. It costs much money and there is considerable risk in margin accounts. It is only fair that the broker make enough from this phase of his business to cover these costs.

Elemental Principles of Buying and Selling Securities

THE MAGAZINE OF WALL STREET receives hundreds of inquiries bearing on the relationship, in a business way, of client and broker. These inquiries are very seldom so serious as to require legal interference, and almost all of them bear upon some misunderstanding on the part of the client with the ordinary customs of brokerage. This chapter purposes to deal with some of the very elementary rules and regulations of the brokerage business. They may be well known to the consistent trader or investor, but the casual investor or the beginner should observe them carefully.

The Order

When the client has made a careful study of the firm with which he purposes to trade, has investigated its responsibility, appreciated its reputation for good service, and is satisfied with the integrity of the partners, he desires to give an order for the purchase or sale of securities. If the order is given over the telephone the client must first be certain that the recipient of the order is a responsible person; that is, a partner, the office manager, one of the customer's managers, or the accredited order clerk. It is well to be certain of the name of the representative of the firm receiving the order over the telephone and when the order is given the man who receives it should be obliged to repeat it back, after writing it down, so as to avoid all errors. The telephone order should also be confirmed by letter from the customer. If the order is given at the office of the broker it may be verbally given, but it should be written on a regular order form and signed by the customer. Every safeguard possible should surround the giving of an order and when the order is filled the customer must make certain that he receives a written notice within a very reasonable time.

Safeguards

When the customer desires to change the limit or price of an order already placed with the broker it is very necessary not to forget to cancel the original order. This oversight has been the cause of large losses; for the broker, especially when busy, places the burden of correctness of orders on the customer. In an active office so many hundreds of orders are placed every day that the order department becomes mechanical, much as a type-setter of manuscript.

In an active market, when the ticker is far behind in time, the customer may be surprised to find his market order filled at a price points or fractions of points some distance away from the ticker price at the time he placed the order. If he is in the broker's office at the time, he may verify the purchase or sale price by following the ticker. If he is at a distance from the office he must rely upon the integrity of his broker. On a fairly active day in stocks, orders placed before the opening of the market should be given not later than 9:45 A. M., because the confusion on the Exchange during the last fifteen minutes before the opening is so great that a late order may be filled some minutes after the opening and the opening price lost. In this case the broker cannot be held responsible.

On all inactive stocks, the client should ask for the bid and offered price before placing a market order, also if the order is for an "odd lot," less than 100 shares, and the opening of the stock reads on the tape "5000 Union opened from 140 to 137" the client must be satisfied with any fair average. The custom is for the odd lot brokers to make an opening price for odd lots arbitrarily between the above prices and all clients must abide to this decision.

Stop Orders

The "stop order" has caused more controversies than any other kind of an order because the general run of customers do not understand what a stop order means. Suppose the customer owns fifty shares of U. S. Steel at 107 and gives his order to the broker to sell this fifty shares at "104 stop." There are three possibilities for the fulfilling of this order. The order is not good until Steel sells at 104. As soon as a sale is made at this price the stop order becomes effective. If other brokers are bidding 104 for more Steel, the customer will get 104 for his fifty shares. If only one order was desired at 104 and the original sale was made on this one bid, leaving the best bid at $103\frac{7}{8}$, the customer will get the latter price. The stop order at 104 is not a limited order. It never means that the customer will get 104 for his stock, although he *may* get this price. It means that as soon as a sale is made at 104 the stop order automatically becomes a "market" order for any price. If the customer entered this order Monday evening, when Steel closed at 105, and on Tuesday morning Steel opened at 102, the customer would receive a price of 102 or less on his order to sell "stop" at 104.

If the customer had his stop order in to sell his Steel at 104, and the following day Steel opened 10 points lower, or at 94, the order, automatically becoming a market order, would be filled at the best obtainable price near 94 the opening price.

The customer must always bear in mind that the placing of a stop order is not a guarantee that he will get the stop price. The result may be very much lower, but the stop order is the best obtainable insurance for the trader.

Bond Orders

Orders in bonds are rarely if ever given at the market, unless the issue to be purchased or sold is a very active one. It is always safe to get a quotation on bonds before giving an order. On the Exchange the bond dealers are the most arbitrary of any class of security dealers and great care must be used in this department. Almost all members of the Exchanges find it best to give their orders to the regular bond dealers who form a class by themselves. Whenever possible, ask for a "firm" bid or offer which means that such quotation is not apt to be withdrawn at once.

Curb Orders

When giving orders in Curb securities, unless the customer has an accurate knowledge of the market, it is much safer to put in a limited order first and ask for a quotation. Sometimes the difference between the bid and offered price is very far apart and there is no way to check up the purchase by watching the ticker, for there is no ticker. Curb orders must be very carefully given and practically entire reliance must be placed in the broker.

There does exist a so-called official list of Curb sales, but it is not accurate by any means because there are no regular reporters such as the Stock Exchange uses, and the broker may report his sale on the Curb or he may not.

Official Lists

If the customer gets his report of a purchase or sale at a price which does not appear on the ticker reporting such sales for the Exchange; if, in addition, the newspapers and so-called official stock exchange list does not show a transaction at this price for the day, the customer may make his broker prove such a transaction, and if it is correctly compared with the broker at the other side of the transaction it must be placed on the official lists as sent out by the Exchange. If the official lists will not print such a transaction, there is something wrong which should be investigated by the customer at once, even to taking the matter up with the broker whose name appears upon the report as having been the second party to the transaction, or the Secretary's Department of the New York Stock Exchange.

Unlisted Orders

The most dangerous pitfall for the customer relative to orders is in the inactive, unlisted stocks or bonds traded in "over the counter," or private sales between brokers. Giving a market order in this class of security is inviting a loss. Brokers of this nature make their livelihood by trading for their own account and not as agent, so everything depends upon the integrity of the broker. In every transaction of this nature at least two "unlisted" brokers should be made to compete on a quotation and the quotation should be given on the "firm" basis. In untechnical language, the broker should be asked for a quotation which would remain constant for several minutes for the purpose of comparison. If the customer is dealing through a regular commission house in this class of stock or bonds, he may ask the firm to give him the name of the "outside" or "unlisted" broker quoting or demand several quotations.

Kinds of Orders

An order given during the day, unless otherwise specified, means that it is only good for the day on which the order was given. If the customer sends in a letter, "Sell 100 Steel at 105," the broker is privileged to accept this order for the day only. The customer may mean the order to be good until filled, but he must say so in his letter, or he must not object if the order is cancelled at the end of the day.

The following are various forms of orders:

1. The simple command without other notation means good for the day only.
2. An order accompanied by the letters G. T. W. means that it may be kept good until the closing of the market on the Saturday following the day the order was given. Good This Week.
3. An order marked G. T. C. means that it is good, or to be kept alive until countermanded. Its life is at the command of the customer. Good Till Countermanded.

The G. T. C. order is the favorite order of the investor and its permanent feature until filled, makes it the best of the order systems. Customers should always specify this G. T. C. when giving orders so as not to confuse the broker with a day order.

4. Stop orders may be placed under any of the above three forms.

5. Unless otherwise marked any of the above four forms means that the customer, when the transaction is completed, expects to deliver or receive the stock or security before 2:15 P. M. the following day, except in case of Friday when the transaction is completed on Monday.

6. If the customer desires to sell a security which he will not be able to deliver to the broker for two or three days, he may sell "at three days" or "seller three," which gives him the privilege of waiting that time or making delivery on one day's notice to the buyer.

7. Another form of selling or buying is with a thirty-day extension, which follows the three-day form in like manner.

8. Estates selling securities which need legal papers, or Western customers, or foreign customers, selling inactive stocks or bonds which cannot easily be borrowed, often sell "delayed delivery" which is in reality a kind of gentlemen's agreement between the brokers to wait any reasonable length of time for the completion of the transaction.

General Suggestions

In cases where the purchase or sale of "when as and if issued" securities are involved, it is well to consult the broker before placing the order to find out what kind of contracts are necessary. The same applies to reorganization securities where the certificates are not issued.

Do not lose your temper when you believe that you have been unjustly treated; for there may be a perfectly good reason. If in serious doubt, consult authorities, such as the Inquiry Department of the MAGAZINE OF WALL STREET, and present both sides of the case and all the facts. Only as a last resort consult the legal features of a difference. Oftentimes a compromise can be effected and it costs less. Be absolutely clear and in giving a bond order, always describe the bond in full, giving the "due date" of the bond, and interest periods. Be certain to designate "common," "preferred" or "first preferred," etc., when dealing in stocks, and if the stock is in process of reorganization, where a committee issues certificate of deposit, designate that you desire to deal in certificates and not stock.

The Broker's Statement—How It Should Be Checked

THE writer is not guessing when he states that 90 per cent. of the men and women who have speculative accounts do not know how to prove their monthly statements from the broker, or, if they do know how, they are careless in checking the statement. Not one of these careless customers would permit a tradesmen's bill to be paid without going over it carefully, but the same element of risk on account of errors enters into the broker's statement as well as the tradesmen's. Nearly all accounting in some one or more phases is subject to possible errors and all brokerage firms use the form of "Errors and Omissions Excepted" when rendering a statement.

The Simple Form

There is no universal form of statement rendered by brokers, but all the forms used can easily be reduced to the fundamental elements: Cash credits or debits, Purchases and Sales, and Interest. The form shown with this article combines all the three fundamentals. John Jones deposited \$1,000 and also received a dividend from his Steel com.: these are the cash transactions. He purchased Steel and Anaconda and sold part of his Steel and Anaconda: these are the purchase and sale items. He was charged interest, which completes the fundamental possibilities of a Long Account. Put yourself in Jones' place and check up the statement.

The first item, a credit of \$1,000, was put up as margin. This is to be checked with the customer's memory or his check stub. The second item, the purchase of 100 Steel at 108, must be examined. The commission is \$12.50 and the total proves to be correct for the debit side. The third item is a credit of a cash amount of \$300, which is a dividend on 100 Steel com. For convenience, we will permit Steel to be ex-dividend and payable the same day. Jones must find out that Steel paid 3% and be sure he received \$300 credit. Then there is a sale of 50 Steel, which is a credit. The sale is at 106 and the commission of \$6.25 and also \$1 New York State tax is to be deducted from the total credit, which was \$5,300. In the next instance Jones purchased 100 Anaconda, to which \$12.50 commission must be added, and later sold this Anaconda at 83½. On the sale the \$12.50 commission is to be deducted and Jones must find out the par value of his stocks, which will show him that since Anaconda is only \$50 par value, the New York State tax to be deducted from this credit is only \$1 and not \$2, for the tax is based at the rate of 2 cents for every \$100 par value of stock or fraction thereof.

There is left, to check, the item of interest. Nearly all brokerage book-keeping is based on the 6% method for convenience of the bookkeeper. This is later reduced to the rate which is to be charged, whether 2, 3 or 4%. A simple and easy proof for Jones is to multiply the principal amount by the number of days between the day the debit or credit originated and the last day of the same month, then mark off three places from the right of the total and divide by 6. This result is 6% of the item. On the example shown the difference in favor of the debit side of interest is \$23.28. The broker charges Jones 3%, so that he is debited one half of the amount at 6%, or \$11.64. Jones will then add up both sides of the account to find if it is

properly balanced and also add the amount of stocks purchased and the amount sold, to balance these. Finally he will check the money and the stock brought down for the next month.

Short Accounts

The average brokerage firm separates "Short Accounts" from "Long Accounts." There are some who do not do this and the customer should request that the two accounts be kept separate and two statements rendered monthly instead of one statement. The broker, as a rule, will allow a credit interest on margin deposited for a short account, but does not allow interest on the credit balances. However, when a short account reaches very large proportions, sometimes the broker will allow the customer a share of the interest which the broker gains from lending the money to borrow the stock for the customer.

There are times, also, when the broker will charge 4% or 5% interest on a Long Account, but only allow 2% interest for margin deposited for a Short Account. There are also instances where brokers charge the prevailing average interest rate for the month on debit balances but only allow the customer 2% on credits on the theory that small amounts cannot be loaned out at a good rate. The customer has a perfect right to object to such a method and may insist that all margin be deposited in his Long Account and credit be given at the same rate as the charge. If the customer has two accounts, Long and Short, no item of interest will appear in the statement of the Short Account. It is the best plan for the customer to have his broker divide the accounts as designated. The confusion of the lay mind in checking is thereby avoided.

It is the customer's duty to find out why a certain rate of interest is charged, if he has any doubts as to the propriety of his broker's charge.

Compounding the Interest

The broker renders the customer a statement at the end of each month. If the customer has a debit balance of \$12,000 the interest at 6% for the first month will be about \$60. This is added to the debit balance and the interest charge, at the end of the second month, is based on the debit of \$12,060. Thus the interest is compounded twelve times a year. If the customer had borrowed this \$12,000 at his bank on a year's note there would be but one interest to compute. A great many customers, therefore, find it convenient to pay the interest charge each month, thus saving the interest on interest. If the customer retains a credit balance less than \$500 with his firm and the account is not active; that is, if no purchases or sales are made, the law prevents the broker from allowing any interest whatsoever.

Watching the Dividends

All dividends accruing on stock purchased belong to the customer and not to the broker. The broker is also liable for these dividends. But, to be on the safe side, the customer should find out as soon as a stock is purchased, how much it pays in dividend, when the books close (the company's books) for payment to stockholders of record, and the date the dividend is paid. When the monthly statement is rendered, part of the checking should be to determine if the customer has been credited the dividend in full and on the proper date. If the customer is "short" stock he must be

charged with the dividend, for it belongs to the individual from whom the stock is borrowed. It is necessary here also to be certain that the charge is a correct one.

If the dividend accruing to the customer comes from a foreign corporation such as the Canadian Pacific Railroad Co. or the Dome Mines Co. Ltd., the broker is forced by the Income Tax law of this country to deduct 2% from the amount unless the customer furnishes an ownership certificate claiming exemption under the tax law. For the ordinary U. S. citizen desiring to claim such exemption the form of certificate, number 1000B, is used, and for the firm, 1001.

Checking the Bonds

Bonds purchased or sold for the customer offer the greatest difficulty. These should be checked for errors very carefully. Unless otherwise specified, bonds are sold "with interest." The customer who buys a bond with

IN ACCOUNT WITH JOHN SMITH & CO. INTEREST 3%													
DR. John Jones Long %													
DATE		PRICE	AMOUNT	DATE	INT. %	DATE		PRICE	AMOUNT	DAYS	INT. %		
Mar 3	100	Steel com.	108	10,312	50	28	50 46	Mar 1	By check % Margin	1000	31	5 16	
Mar 5	100	Anaconda	81	8,112	50	26	35 15	" 4	" dividend 100 Steel	200	27	1 53	
Mar 31	100	St. Paul crs. 2014 Jr	105	10,512	50	-	0	" 4	50 Steel com.	100	5 29 2	75	27 23 81
		Int. at 3%		11	64			" 8	100 Anaconda	83 1/2	8 29 9	23	31 81
									(By Int. Bal)			23	28
									By Balance	146165	52		
								50	Steel com. long.				
								100	St. Paul crs. 2014 long				
	300		29,557	27	85 61			300		29,557	27	85 61	
Apr 1		To Balance	14665	52									
	50	Steel com. long											
	100	St. Paul crs. 2014 long											

interest due on April 1 which is purchased on March 1 pays interest to the seller from the preceding interest date, which is likely to be in this case Oct. 1. The customer is then entitled to the full coupon due on April 1. No coupons will be cashed without an ownership certificate and it is the duty of the customer to provide his broker with such ownership certificate before the date of April 1.

The extension of the charge for the purchase may easily be proved by figuring the interest at the bond rate from the previous period of payment on the 30 days a month basis. Usually the broker itemizes his interest in the statement. If he does not do this the customer should insist upon it.

Customers must make certain that they are not charged interest on When Issued trades. The broker has simply given a contract for this class of purchase and no money passes unless the price on such purchase falls rapidly, when the broker, who purchased, may be asked to deposit margin

covering such difference in price with a trust company. In this case the customer is properly charged with interest on the amount so paid.

The customer should ask about the loaning rates for stocks which he is carrying in his account. If such stocks should loan at a premium—that is, if the demand for borrowing is so great that the borrower is willing to pay a bonus—the customer is entitled to such premium or bonus. This item should be credited to him on his statement and it is possible to check it by estimating the number of days the stock loaned at a premium and multiplying by the premium rate. Thus if 100 New Haven loaned at a $1/16$ premium for 5 days the credit to the customer should be 5 times \$6.25 or \$31.25.

Another item to investigate is charge for collection on out-of-town checks. The Federal Reserve system now has a definite charge for every locality and it is very easy to get such a list of charges from the bank where the customer's account stands and check it against any such charges appearing on the statement.

The very first thing for a neophyte in the business to do is to have his brokers explain every item of the statement. And it is not only errors of commission, but errors of omission, which may cause trouble. Therefore the customer must fortify his knowledge by a thorough knowledge of the business before entering it. The knowledge of the par value; dividend rate and dividend date of all stocks dealt in, the knowledge of the why and wherefore of the interest charge, the certainty of the commission charges on the Stock Exchange, Curb and Unlisted departments—all these are part of the customer's necessary education. It is better to get this education first hand, by inquiry, than to get it by experience and monetary loss.

The Matter of Margins—Rights of Broker and Client

MARGIN is the equity actually belonging to the customer who has an account with his broker. If a man owns a house and lot for which he has paid \$10,000 and on which he has placed a \$6,000 mortgage, his equity is \$4,000. This \$4,000 is his margin in the property. If he buys 100 Steel at 113 and gives his broker \$1,000, his margin is \$1,000, and there is no economic difference between the real estate deal and the stock deal. Should the property decline in value to \$8,000, the margin would be reduced to \$2,000. If, in the second case, Steel declines to 110, the equivalent of 3 points on the 100 shares, the margin is reduced \$300 and becomes \$700. In brokerage, relating to stock and bonds, margin is figured on the basis of points: each point loss on 100 shares reducing the margin \$100 and each point gain increasing the margin \$100 on 100 shares of stock, or on ten \$1,000 bonds. The clearest idea for the customer to utilize in understanding margin is to think of it as an installment on the purchase of stock or the buying of an option. To quote Todman "If he deposits a ten point margin on a stock selling at par, he can carry ten times as much stock as he could if he had to pay the full purchase price, and his profits or losses are correspondingly increased." The margin for a "short" account is considered in exactly the same manner, only the situation is reversed in the matter of price. The rise in the market decreases the margin in this case.

Therefore the margin on a "long" account can be denoted in formula as follows:

Selling price—Debit Balance÷No. Shares=Point Margin.

The Margin on a "short account" can also be in formula:

Credit Balance—Purchase Price÷No. Shares=Points Margin.

Margin Card Mar. 22nd

[illegible]

Ledger Account

DATE		PRICE	AMOUNT	DATE		PRICE	AMOUNT
Mar 13	100	113	11,312 50	Mar 15			
	1 st				22	100	
	21	1000					
	21	100					
	22	100					

1. Market price at close of March 22.
2. Actual difference of balance of ledger a/c. (subtract Cr. from Dr.).
3. Excess of sales value over actual debit.
4. Divide 210 share long into $1070 = 5 +$ points margin.
5. Success Mines not figured as any value.
6. Allowance must be made for interest and commissions.
7. Steel margined to 105, Utah to 91, Bond to 90.
8. St. Paul sold—profit enters into ledger balance.

The Amount

There is no set rule regarding the amount of margin necessary for the customer to deposit for speculative purposes. This amount depends upon two elements: the kind of security speculated in and the conservative or anti-conservative position of the brokerage firm. However, custom has decreed certain rules of a general nature which rules generally act as a basis for marginal transactions. The ten per cent. margin on active securities dealt in on the New York Stock Exchange is about the minimum that any "good" firm will accept and the customer is much better protected by keeping a margin of from 20% to 50%. This 20% rate would cover speculation in stocks like the active copper issues, Utah, Ray, Chino, and Anaconda, or in rails such as St. Paul, New York Central, Union Pacific or Atchison. An inactive stock or a very high priced stock such as Delaware, Lackawanna & Western, National Biscuit or Bethlehem Steel (before the change in parity), would probably demand a very much higher margin, but the amount would depend upon the judgment of the broker who carries the account. There are really very few curb securities which are carried on margin unless they are of a nature which the broker can use in his loans. Such issues as Magma, Midvale Steel, Lima Locomotive and some of the motor stocks are acceptable and can be carried much as regular Stock Exchange stocks. Other issues with a low par value and low price can be carried on a ten point margin by the customer, and in this case the broker usually loans the difference from his own capital. The better grade of oil stocks and mining stocks and some industrials are of this class. Mining stocks selling at cents per share are seldom, if ever, classed as marginal stocks by conservative firms doing Stock Exchange business and mining stocks which are mere prospects, are debarred from marginal rights.

Unlisted and Bonds

Very few firms will accept unlisted securities on margin, except where the particular unlisted security has been "brought out" by the same firm with which the customer is trading. The market for unlisted stock is usually so wide, the bid and offer prices usually are points apart instead of eighths apart, that there would be little chance of protection for the broker in time of panic. But if Jones & Co. introduced American Manufacturing Co. to the public, they have a certain knowledge of the market, so if the trader desires to carry this stock on margin, he is apt to be successful with Jones & Co. while no other broker would even think of accepting the account. However, there are exceptions to every rule and almost all brokers will accept the better grade of Public Utility unlisted stocks as margin today. Stocks like Cities Service and Republic Ry. & Light are in this class. It must be remembered, however, that in all the stocks mentioned as illustrations, the consideration which the broker has in mind is not value but marketability.

Listed bonds are very little better as margin so far as the broker is concerned than unlisted bonds. Bonds are considered as good margin material when they are not used in large quantities.

The Legal Side

According to the general laws of nearly all states, the broker cannot sell the account of the customer trading on margin to protect himself without first giving due notice to the customer.

If due notice has been given and the broker arrives at the stage of proceedings where the account may be sold, the law states that the sale must be at a public market. The New York Stock Exchange, the Consolidated Exchange and the Curb market are not public markets, and ordinarily the broker must legally advertise the sale and sell at public auction. The reader will readily see that such protection for the broker is no protection at all. Thus, the custom arose for the broker to make an agreement with each client when trading relations began, giving the broker permission to use his, the broker's, discretion when it was time to sell out an account. In addition to this initial agreement which each customer is usually asked to sign, the broker has printed on his notices an agreement of this nature:

It is agreed between broker and customer:

1. That all transactions are subject to the rules and customs of the New York Stock Exchange and its Clearing House (or the Consolidated Exchange, or the New York Curb Association, etc., etc.)

2. That should the broker advance all or part of the purchase money, he reserves the right to sell the customer's securities at said broker's discretion at any time without notice and at public or private sale, when in said broker's opinion the condition of the account warrants such action.

3. That all securities from time to time carried in the customer's marginal account or deposited to protect the same, may be loaned by the broker, or may be pledged by him either separately or together with other securities, either for the sum due thereon or for a greater sum, all without further notice to the customer.

Illustrations

1. Smith buys 100 Steel com. at 113 and gives his broker \$2,000. The broker figures the margin by dividing the 100 shares into the \$2,000 which gives Smith 20 points margin.

(For the purpose of illustration and to avoid too many figures, there will be omitted from the illustrations the items of commission and incidental charges. As above, the commission for buying and selling the one hundred shares would be twice $\frac{1}{8}$ of 1% or \$25, and the interest item would depend on the time the stock was carried in the account.)

If Steel com. declines to 93, a twenty point loss, the broker would sell the 100 shares, provided Smith did not place more margin. The stock cost \$11,300 and was sold for \$9,300, a difference of \$2,000, just the amount of the margin.

2. Smith gives the broker \$2,000 Reading gen. 4% bonds, market value \$2,000 and buys 100 Steel at 113. Every \$1,000 bond is equivalent to 10 shares of stock in margin figuring. Smith has now 120 shares of stock, or a margin of $16 \frac{2}{3}$ points. The broker has loaned Smith the full purchase price of the Steel, \$11,300. If the price of Steel drops to 95 and the value of the bond to 90 the margin will be wiped out. The broker will sell 100 Steel for \$9,500 and the bonds for \$1,800, a total of \$11,300 which he originally invested for Smith.

3. Smith gives his broker the \$2,000 bond and buys 100 Steel at 113 as above, but in addition he purchases 1,000 Success Mines on the Curb at 45 cents (\$450). The average broker will not even include this stock in the margin and will deduct the \$450 at once from Smith's margin credit. If the bonds drop to 90 (\$1,800) the broker will sell the Steel at $99 \frac{1}{2}$.

First position in example 3:

\$2,000 Rdg. 4% bond.....	\$ 2,000
100 Steel	11,300

Value of account	\$13,300
Cost of 100 Steel	11,300

Equity or Margin	\$ 2,000
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Second position in example 3:

\$2,000 Rdg. 4% bond	\$ 1,800
100 Steel	9,950

	\$11,750
Less cost of Success.....	450

Value of account.....	\$11,300
Cost of 100 Steel.....	11,300

Equity or Margin	\$ 0
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In the third example shown, the broker would protect himself by placing a stop order on Steel at 99½ and the Rdg. bond at 90. When these two were sold the account would be even, eliminating the matter of commissions and interest, and the broker would probably turn over the Success Mines to the customer to do with as he desired. When the stock declines or advances as the case may be, so as to come near the limit of margin furnished, the broker may demand any one of three actions by the customer: to supply additional margin, take up the account in full direct, or have it transferred to another firm.

The famous Hughes Commission reported the following on margins:

"Purchasing securities on margin is as legitimate a transaction as a purchase of any other property in which part payment is deferred. We therefore see no reason whatsoever for recommending the radical change suggested, that margin trading be prohibited. . . . Two practices are prolific of losses—namely, buying active securities on small margins and buying unsound securities, paying for them in full. . . . The amount of margin which a broker requires from a speculative buyer of stocks depends, in each case, on the credit of the buyer; and the amount of credit which one person may extend to another is a dangerous subject on which to legislate. . . . In preference, therefore, to recommending legislation, we urge upon all brokers to discourage speculation upon small margins and upon the Exchange to use its influence, and, if necessary, its power, to prevent members from soliciting and generally accepting business on a less margin than 20%."

Transfer of Stock—Safeguarding Against Unreliable Firms

“GENTLEMEN: About three weeks ago I purchased 200 shares of Green Monster Mining stock through Messrs. Brown & Jones, and sent them a check to pay for the stock in full. I asked them to transfer it to my name and send it to me. I have written to them twice and all the reply I get is that the stock is in transfer. I am afraid that something must be wrong and I am quite worried. Are they responsible people and can you tell me why I should have to wait so long?”

(Signed) JOHN SMITH.

The above letter denotes two things: The first that the writer has not investigated the brokerage firm sufficiently to have confidence and the second that he knows little about the conditions relating to the transfer of stock. The subject is a large one and has a multitude of side details which need not be a part of the knowledge of the investor, but the investor should know the fundamental principles of transferring stock and the various reasons which cause delays and trouble. In addition to this, there are safe plans for the investor, living at a distance from his broker, to follow. It is the purpose here to instruct in such fundamentals and offer a suggestion or two for safeguarding against an unreliable firm or an over-sensitive imagination.

The Form In Use

The purchase of shares of stock outright makes the purchaser a partner in the corporation and, both for the new owner's protection and the safeguarding of dividends, his shares should be registered in his name, both on the certificate representing ownership and on the company's books. When the stock is purchased it reaches the broker in a former owner's name. On the back of the certificate appears the following form:

For value received hereby sell and transfer unto (1) Shares of the Capital Stock represented by the within certificate, and do hereby irrevocably appoint and constitute (2) Attorney to transfer the said stock on the Books of the Within named Corporation, with full power of substitution in the premises.

Dated

In the presence of (3)

The certificate, when it reaches the broker has been signed by the former owner in space (3), also duly dated and witnessed. Everything else is left blank. The investor has instructed the broker to make the stock out in his, the investor's name, so the broker's clerk fills in on line (1) "John Smith, 123 Adams St., Chicago, Ill.," and sends it to the transfer office. The transfer agent of the corporation then issues a new certificate to John Smith. Line (2) in the above form is filled in by the transfer agent of the corporation when actual transfer is made, but this granting of attorneyship is used also to make the stock non-negotiable, as, for example, when sending through the mails. The customer owning and selling the stock may desire to send it to New York from Michigan. He does not know to whom the stock has been sold, so he simply gives his broker attorneyship to make the transfer, by filling in on line (2) "Brown & Jones." When Brown &

Jones receive the certificate they in turn stamp on the back another attorney form and sign in blank, so that the next buyer or the transfer agent can be attorney at the actual moment of transfer.

The Business Almanac summarizes the care which should be observed in making a transfer. If the name is filled in wrong on line (1) there is endless red tape necessary to undo the error. It is always safe for the inexperienced to have a broker or bank do the transferring, and where legal papers are necessary, novice attempts are disastrous:

"Transfer agents often insist upon being satisfied as to the genuineness of the signatures on the back of the stock certificates, especially in cases where the parties to the transaction are unknown to them. In such cases, it may be found necessary to have the signatures attested by a notary, or guaranteed by some bank or brokerage house, with whom the agents have frequent transactions. Any error in the making out of the new certificates, or their loss, should be reported at once to the transfer agents.

"Administrators, trustees, guardians, etc., should use great care in making stock transfers. Such persons should not, of course, have stocks transferred to themselves, as individuals, but to themselves 'as administrators, guardians, trustees, etc.,' as the case may be. Husband and wife should not transfer stock one to the other, except through the transfer agent, unless the laws of the state of their legal residence permits such transfers to be made direct."

Reasons for Delay

If the firm with which the investor is dealing is a responsible one and is not of the "bucket shop" variety, it desires to expedite the orders for transfer as quickly as possible. But there are various reasons for delays and oftentimes the firms do not instruct the client as clearly as they should

IRREVOCABLE STOCK POWER

Know all Men by these Presents,

That I John Smith

For Value Received have bargained, sold, assigned, and transferred, and by these presents do bargain, sell, assign, and transfer unto

Twenty

20 Shares of the Common STOCK of the U. S. Steel Corporation

standing in my name on the books of the said Company

represented by certificate No. _____ herewith

And I do hereby constitute and appoint Messrs. Brown & Jones

my true and lawful Attorney, IRREVOCABLY, for me and in my name and stead but to my use, to sell, assign, transfer, hypothecate, pledge and make over all or any part of the said stock, and for that purpose to make and execute all necessary acts of assignment and transfer thereof, and to substitute one or more persons with like full power, hereby ratifying and confirming all that my said Attorney or their substitute or substitutes shall lawfully do by virtue hereof.

In Witness Whereof, I have hereunto set my hand and seal at

Helena, Mont. the 10th day of April 1917

Signed, Sealed, and delivered in the presence of

William Green

John Smith



regarding such reasons. The following are some of the various reasons for these delays:

1. It is very possible that the transfer books of the corporation may be closed, either for a dividend adjustment or for a meeting of stockholders or directors. Sometimes the books of the transfer department are not open to any change for four or five weeks. The broker will have to hold the stock in his possession until the date for re-opening the books arrive.

2. Sometimes, especially in inactive issues of securities, there is considerable delay in the delivery of the stock by the seller to the purchaser. For example, Commonwealth Ry., Light and Power stock or Advance Rumley bonds, both of which are dealt in "over the counter," and not in a regular market, may be sold by a man in Denver to a New York broker whose customer lives in Florida. The situation with respect to the delay here is quite obvious.

3. It often happens, especially in mining stocks, that there is no transfer office in New York City, but that the actual transfer must be made in San Francisco, or at a mining office in Idaho. These out-of-town transfer offices are notorious for taking their time, and incidentally charging a small amount for each certificate issued, plus registered mail amount, so that the broker very often has to write two or three letters before he can hurry the delivery of the new certificate from the transfer office.

4. In cases of reorganizations or the deposit of stock with holding or protecting committees, there is usually always a delay. As a rule there is a stated date set for such operations and so much stock is delivered to the transfer office at once that the clerical detail involved prevents quick service.

5. Sometimes it is necessary for the broker to make a double transfer to get the right amounts. Suppose three clients purchased a total of 90 shares of Reading the same day at the same time. The buyer would receive either a 90-share certificate from the seller "through transfer" to his own name, or he might receive a 100-share certificate and give ten shares in change; but, if he accepted the shares through the transfer office to his own name, not wishing to give up the name of his clients, he would be compelled to send the certificate purchased back to the transfer office, filled in on line (1) to all three clients' names denoting the number due each.

Suggestions for Protection

If the client is of a nervous disposition or has cause to safeguard himself in every way, he may pay the broker a portion of the purchase price and instruct the broker to send the certificates of stock to him through some bank, with draft attached for the amount due. When the amount is collected through the customary banking methods, he will be in actual possession of his stock and may transfer it himself. But, being somewhat ignorant of the necessary procedure, he fears to do this; for he may make a serious error in "filling" in the names, so there is suggested another idea in this connection.

Almost everyone who can afford to purchase stock or make an investment has a bank account. All banks, no matter how small, have New York correspondents, either direct or indirect. When the purchase is made of 20 Steel common by Mr. Smith, of Helena, Mont., through Messrs. Brown & Jones, of New York, Mr. Smith has already sent his check or money order for one-third or one-half the sum to the above-named brokers. On receiving

notice of the purchase of the stock, Mr. Smith makes his arrangements with the First National Bank of Helena, and writes instructing his New York brokers as follows:

New York City:

Gentlemen: I have received your receipt for \$1,000, which I recently sent to you and also notice that you have purchased for my account 20 shares of Steel common at 116, which with your commission amounts to \$2,322.50. My bankers are the First National Bank of Helena, Mont., and their New York correspondent is the Sixty-Fourth National Bank. Please deliver the 20 shares of Steel common with bill of sale and tax stamp attached to the customer's security department of the Sixty-Fourth National Bank of New York City, who have been instructed to pay you \$1,322.50 for the above-mentioned shares.

JOHN SMITH.

First National Bank,
Helena, Mont.:

Gentlemen: Please instruct your correspondents in New York City, the Sixty-Fourth National Bank, to accept from Messrs. Brown & Jones 20 shares of U. S. Steel common and pay them \$1,322.50. You may charge me the above amount in my account with you. Please instruct the Sixty-Fourth National Bank to ship the 20 shares to you for my account by registered mail, in the name of "(Mrs.) Jane O. Smith, 321 Beachwood Place, Helena, Mont." Messrs. Brown & Jones have been instructed to attach the necessary sales ticket and cancelled revenue stamps, and you may charge me also the necessary amounts incidental to the transfer.

JOHN SMITH.

The Detached Power Method

Another method of protection, not quite so sure in its insurance, is for the client to make a deposit of partial payments as in the former instance, and then send his broker a detached Power of Attorney, as shown in the graphic with this article. The broker is fully protected in case you do not pay the amount due and can go ahead with the transfer at once. When you are assured by your broker, or the transfer office, if you desire ultra protection, that the certificate is really in your name, you may send the balance due and the actual certificate with the detached Power of Attorney may be sent at once. This method is also used by those who desire purchases in their names but desire to leave the stock with the broker for collateral on other purchases.

The Meaning of Transfer

Smith makes the following comment on transfers: "The act of placing a certificate of stock or a registered bond in the name of a new owner" . . . "The new owner of a stock which is in receipt of dividends or of a registered bond upon which interest is paid, should have it transferred into his name before the closing of the transfer books for a dividend or for interest, for the check for the dividend or for interest will be sent to the person in whose name the stock or bond stands."

Every transfer office has its own rules and regulations in the matter of transfers relating to estates, trustee funds, corporation holdings of other corporations and errors and lost certificates. The banker or broker, acting as an agent, will usually be glad to perform this service for clients, and it is much safer to have transfers effected in this way.

How Often Do You Complain?—Have You Sold the Right Stock?—Odd Lot Prices—Margin Calls—Stop Orders

“**H**OW many complaints do you average in a month?” This question was asked by the writer and the reply come from the manager of a large “wire” Stock Exchange firm, “about one hundred.”

At first thought this total seems enormous, but there is such a divergence of opinion between customers and brokers on matters pertaining to the brokerage business, that it is really remarkable that the average is not larger. You can say all manner of mean things to a man and not start an argument, but the moment you hit his pocketbook, trouble begins.

Interest

The largest number of complaints are based on matters pertaining to Interest and Orders. The most frequent complaint about interest is in connection with the rate charged for the month. Those customers who pay any attention to this detail, usually follow the averages quoted in the daily newspapers and mentally take a balance, or average, for the month. When their statements arrive, they find that the charge is from one to one and a half per cent. higher than their calculations and, without other investigation, they decide that the broker is a plain everyday robber. But just to confirm their suspicions, they usually drop into some other broker's office and ask the customers' man his charge for the month. This customers' man is on the lookout for new business; he knows why the question is asked and quotes a rate in accordance with the complainant's idea. Maybe he gets the account. But if the customer is fair, he will go back to his broker and tell his story. It is ten chances to one that he will find out that there is little if any difference in rates between the two firms, based on the kind of an account he has or the quality of the securities he is carrying. He will also learn that there is a vast difference between the average rate of the broker and the average call newspaper rate.

Switching about from broker to broker is very much like changing doctors every week or so. The broker learns to diagnose the client's wants just as the doctor does, and if he is prevented from gaining such diagnosis because the customer is impatient, the loss falls on the customer. It is often better to stick to the same broker so long as he is honest and does his best, rather than to take chances with strangers who have little interest in giving personal service.

Orders

Orders are the basis of a multitude of troubles. Very often, the broker takes a loss to save letter writing, heated controversies and the loss of customers. He may take this loss when he is absolutely in the right. And it is the “odd lot” orders which most often cause the complaints. The customer must never forget that “odd lots,” amounts of stock less than 100 shares, are not executed by the brokerage firm through which the customer's business is done. There are four or five firms, with members on the floor of the Exchange, who do not do business for individual customers. Their

customers are all the other brokerage firms dealing direct with the public. The odd lot orders are filled by these firms on the basis of time, so far as market orders are concerned. The delay in getting a written order to the "odd lot" broker on a very busy day is sometimes serious, but there is no physical way of preventing this.

"I gave you an order to sell 35 shares of Delaware & Hudson at 1 p. m. when it was selling on the tape at 122. Here is your report at 119. The stock sold at $121\frac{1}{2}$, 121, $120\frac{3}{4}$, $120\frac{1}{4}$, 120, $119\frac{1}{2}$, 119 and $118\frac{7}{8}$ and do you thing I am going to stand for this?"

This is a sample kick. What is the broker to do? He has picked out the "odd lot" firm which he thinks gives the best service. It is true that the customer's order was sent over the telephone a few moments after the stock sold at 122. But, while the order was on the way over the 'phone, written by the 'phone clerk, and sent by messenger to the floor member of the "odd lot" firm dealing in Delaware & Hudson, some regular broker had hammered the market, on every bid price down to $118\frac{7}{8}$ and had possibly sold 1,000 shares in one minute's time. By the time the odd lot order reached the proper person the best bid was 119. One could not expect the odd lot broker to give more than the market price!

The result is that the customer's broker tries to argue with the odd lot representative. Sometimes he is able to get a better price and at other times he is unsuccessful. But in any event, the concession is usually made by the odd lot firm or the customer's broker.

Wrong Securities

A member of another large firm suggested that the writer call attention to complaints arising because the broker has sold or bought the wrong kind of security. Not so long ago one could trade in Marine Pfd., Marine Pfd. Central Trust Co., Certificates of Deposit, and Marine Pfd., New York Trust Co. Certificates of Deposit. A customer held 100 shares of the New York Trust Certificates and gave an order to sell 100 shares of Marine Pfd. Certificates. The sale was made on the Exchange where only the Central Trust certificates were dealt in. The broker could not deliver the one kind against the other sold, for it cost a dollar a share to transfer the New York Trust kind into stock, a double tax of \$4 to transfer to stock and another double tax of \$4 to transfer to the Central Trust certificates. Did the customer kick and complain? Of course he did. But, if he had considered that the order clerk did not know what he possessed, that the time for action was limited, and that it is generally supposed that a customer knows what he has, Mr. Customer would have realized that the negligence was on his part.

There are quite a few customers who have sold Texas Co. full paid certificates when they should have sold stock and quite a few more who have done the opposite. No doubt they have all made complaints.

Bond Orders

But when it comes to bonds, chaos rules. Unless the customer states the due date on the bond, its interest periods, and any other necessary data appearing in the indenture, at the time of sale or purchase, it means trouble. The writer has personally seen hundreds of dollars lost because of carelessness in giving bond orders. Sometimes this falls on the broker and

sometimes on the customer. There is usually a variance of price between registered and unregistered bonds of the same issue. In an issue of New York City bonds, some were engraved by the New York Bank Note Co. and part by the American Bank Note Co. Quite a few owners sold New York Bank Note engraved bonds on the New York Stock Exchange, where they could not be delivered. There are other issues of bonds where only certain numbers are listed for sale. These numbers may run from 1 to 5,000 for each \$1,000 bond. Mr. Customer may have bond number 5,021, and if it proves to be an undeliverable bond, he will certainly enter a vigorous complaint.

Stop Orders

Stop Orders have caused many heartaches. Stop orders have lost many a customer and no one loves a stop order but the specialist in the stock, who can judge his market by the amount of these orders he carries on his books. If Mr. Customer would only realize that a stop order is not a limited order, but a market order the moment his price is reached, he might not find so much fault with his broker. But this seems to be one of those unteachable facts. Then again, the customer seldom tries to act in co-operation with his broker in stop orders, or the broker may not help the customer. It is not always wise, especially in an inactive market to place stop orders too far away from the market price. If a customer has 700 shares for sale on stop at 114 and the market is 118, it is often far better to order the broker to place the stop with the specialist when the market reaches 115 than to give it out at once. This prevents the general public from "getting wise" to the real condition of the market. Floor traders and specialists have a remarkable habit of "gunning for stops." On the other hand, when the market is too active and "jumpy," stops at too close range are very dangerous. The writer was once given an order to buy 100 Union Pacific at 140 and sell it at a one point stop. The Union was purchased and reported to the 'phone clerk. The market took a sudden downward trend and in less than thirty seconds the stop was reached and the 100 shares sold at 139. The telephone clerk was very busy and the report for the purchase and sale reached the customer at the same time. He thought he had a real complaint, but the broker knew he hadn't. However, it was a difficult point on which to convince the customer.

Transfers and Dividends

Complaints about transfer delays are multitudinous. The facts relating to delayed deliveries of purchases, the closing of the transfer books, or the case of an out-of-town transfer office, were brought to the attention of readers on page 23 of this book. These complaints are readily answered and as a rule there is no serious difficulty over them.

Another firm mentioned the fact that out-of-town customers were continually complaining that they did not receive dividend checks, although stock had been transferred to their names. The usual answer to this is that such customers had neglected to file proper dividend notices directing where checks should be sent, etc., with the transfer companies. Other customers complained that deductions had been made on dividends of foreign corporations credited to them, as in the case of Canadian Pacific or Dome Mines. This deduction was necessary because they had failed to file Income Tax Ownership certificates with their brokers.

Margins

The writer during his interrogatory travels happened to mention the word "Margin." The partners, clerks, customers' men and correspondence clerks grew pale at the word. When can an account be sold out? What is the proper margin? What constitutes margin? These are the questions which have started many an angry word and changed many an account.

In the first place, every careful firm doing a margin business, makes an agreement with the customer at the time he opens his account. This agreement is in effect that the broker will have the privilege of selling out the account to protect himself when said broker believes the time has come for this action. Of course it is not to be supposed that the broker will sell out an account just because he happens to want to do it; for custom has ruled that he must call for margin from the customer and give the customer a fair chance to send the required margin. On the other hand, the broker has the right to determine whether the margin sent is what he wants or does not want. Cash, Certified Check, Draft or "Accepted Check" are always good. But margin in the form of other stocks, bonds, or notes, no matter how valuable to the customer, may not seem good margin to the broker. The broker is acting in exactly the same capacity as the banker. No bank will accept a loan unless it is satisfied with the collateral offered, which is usually passed on by the directors or the head of the department in charge. In like manner no broker may accept collateral which he does not wish. He may demand actual legal tender, if he so desires. The Inquiry Department of THE MAGAZINE OF WALL STREET has had many a letter of complaint against the broker because the customer had been sold out after sending additional "mining stock" as collateral for margin. The complainant had no real complaint and he had to be told so, but it was often hard to make him understand.

Unless the market has reached a panicky stage, bullish or bearish, it is usual for the broker to give his client plenty of time to respond to a margin call. But if the broker has used due diligence to get word to the client either by telephone or by mail to the given address, and then the customer does not respond, under the usual agreement, it is permissible to sell or buy in the account, as the case may be.

Statements

Complaints about statements are in many cases apt to arise because the speculator or investor does not know how to read his statement. It is unfortunate that so many different forms are used by the various firms. Of course, outside of clerical errors, which can be remedied at once when taken up with the broker, the usual differences center about commissions and interest. The item of interest has already been discussed, and there should never be trouble about commissions which are always determinate except in unlisted securities. The customer having an active account should demand a list of regular charges made by the New York Stock Exchange, The Consolidated Exchange and the New York Curb Association. If stocks are dealt in on the Boston, Philadelphia, Chicago, Pittsburgh, Montreal or other Exchanges, these charges should be asked for in advance and kept on file. Chicago, for example, has a minimum charge, and there are many firms doing business on the New York Stock Exchange which have a minimum charge of \$2. This information should always be asked

for and given in advance; otherwise complaints are sure to be part of the daily troubles. Usually brokers take it for granted that customers are acquainted with such details and customers take it for granted that they should have been told. Surely no customer would sell real estate without finding out the commission, and, therefore, why place the responsibility on the broker in every case? There is a set rule for commissions in every market except the so-called unlisted, or "over the counter" market and where such securities are traded in, it is wise to ask for the commission to be charged before the order is given.

Complaints about telephone, telegraph, or personal service and attention are of such a nature that no rule can be set or the subject discussed in this chapter. It goes without comment that the broker owes much to the client in this feature, and the only suggestion with relation to this feature is, that, if the customer is not satisfied, he should search until he finds service which he desires. Some customers prefer small firms, others large firms; some wish to be notified of changes in price during the day and others do not wish to be bothered. This is a matter for personal adjustment.

Do You Use Care in Signing Proxies?—Have You Been Assessed Without Cause?—Personal Liability Stock Troubles

THE art of signing one's name to documents without knowing just what such signature might lead to, is an old one and is daily practised with disastrous results. It seems rather paradoxical that a business man who is accustomed to read contracts with the greatest care should attach his name to printed legal forms without careful reading, but it is done daily. This might be expected in some degree where uninformed women are concerned, but nearly every reader of this article has at some time or other been careless in this detail. In ninety-nine per cent. of the cases, there has been no damage, but the remaining one per cent. has caused heartaches and much self-condemnation.

The Authorization—What It Cost One Man

During the latter part of October, 1916, and November of the same year, The American Hide & Leather Co. decided to readjust the accrued preferred dividends of its company and sent out to stockholders an authorization form, a copy of which is shown in the accompanying graphic. The reader will note the closing sentence:

"It is understood that I am not liable for any expense or Committee charges incurred under this power of proxy and of attorney in excess of one dollar per share of stock now by me held, and that I am to be furnished, from time to time, with a statement of results and efforts of the Committee."

Mr. Jones, of Helena, Mont., owned 100 shares of American Hide & Leather Preferred. He received the notice shown in the graphic, thought that the committee of prominent men knew best and signed the document. This signature was affixed on November 13, 1916. Mr. Jones then sold his Hide & Leather Preferred and forgot all about the authorization. Maybe, Mr. Brown bought the stock and possibly Mr. Green bought it, but no one knew; for the purchaser did not transfer the certificate, which remained in Mr. Jones's name.

AUTHORIZATION

In order to co-operate with the stockholders of the American Hide and Leather Company in an endeavor to readjust the accrued preferred dividends, secure proper representation on the Board of Directors and remedy certain unsatisfactory conditions and methods, I, _____, owner of _____ shares of stock, certificates numbers _____, hereby constitute and appoint the Committee heretofore formed, consisting of Anderson Price, Frederic Drew Bond, Hans P. Freece, or a majority of them, or their successors, as my true and lawful attorney and proxy to act for me the same as though I were personally acting, to vote at any meeting of stockholders, to interrogate the officials of the American Hide and Leather Company with regard to the management of the Company's affairs and to demand such financial and operating statements from them as I might, or could, or would, be legally entitled to so demand, to institute and prosecute suits, and for this purpose to consult and employ counsel, and, in general, to do any and all things which, in the judgment of the Committee, shall be advisable and necessary to carry out the above-named purposes. It is understood that I am not to be liable for any expense or Committee charges incurred under this power of proxy and of attorney in excess of one dollar per each share of stock now by me held, and that I am to be furnished, from time to time, with a statement of results and efforts of the Committee.

Dated, *Nov. 13,* , 1916.

Signed: *Henry J. Jones.* (L. S.)

Witness: *A. A. Carter*

When Mr. Jones opened his mail one morning at his office, he found a bill from The American Hide & Leather Co. asking him to send his check for \$100. Mr. Jones spoke mentally as follows: "Why, I have sold my stock. I have no further interest in the matter, so let the next man settle." He tossed the request in the waste basket and dismissed it from his mind.

But not for long. A second and more urgent request came. Jones commenced to think, for he was a financially responsible man. He wrote to the committee and explained that he had sold the stock before the assessment was levied, so that it properly belonged to the man who made the purchase. In due course, this reply came from the lawyer for the committee.

Mr. H. J. Jones,
Helena, Mont.

Dear Sir:

Replying to your favor of April 7 in reply to mine of March 27, in reference to your indebtedness to the Protective Committee of the Preferred Stockholders of the American Hide & Leather Company, I beg to state that, according to your authorization, dated Nov. 13, you obliged yourself to pay to this committee \$1.00 for each share of stock held at the time of your signing this authorization.

The fact that you sold your stock thereafter does not in any way affect your obligation.

It is not the fault of this committee that you sold your stock. It had no control over your actions. Therefore, we expect to hear from you by return mail with your check enclosed.

Very truly yours,
Hans P. Freece.

This cost Mr. Jones an even \$100. Please take warning.

The Proxy Question—Are You Sure You Are Right?

During the past few years The Distillers Company of America had an internal dissension. The present officers and directors of the company were attacked by others who had previously held control of the company, on a matter of policy. The cause and result of the difference are not pertinent to this article in themselves, but the controversy was of vital importance to every stockholder. Mr. Jones, of Helena, Mont., owned 100 shares of this stock.

The object of both contestants was to get a majority of proxies from stockholders who would not be able to attend the meeting, and of course the side holding the majority of votes, represented by the proxies, would obtain control and direct the future of a company which was having a hard time to stand up under the storm of Prohibition Gains. As usual, one fine morning Mr. Jones found a proxy from the company, as he judged, and he carelessly signed it, as he was directed, without reading the subject matter. He was accustomed to do this in every case. A few days later he received another proxy. With this proxy came a letter condemning the men who were directing the affairs of the company, and stating that unless this second group of men gained control, the Distillers Company would probably "go to smash," or words to that effect. Mr. Jones did not recall that he had signed a previous proxy for others, so he signed this second one. The signing of the second proxy at a later date voided the first one.

Now Mr. Jones was a partner in the Distillers Company. But all he thought about, as a partner, was how his dividends might be affected. He did not find out all he might have found out by making a careful investigation, but he "took a chance" and a chance like this might have thrown the control of "his" company into hands which would not develop the

future to the best advantage of the "little partner," the small stockholder.

Recently there has been some kind of an effort made to get the small stockholders together so as to make their work effective and to direct all their voting efforts towards the best interests of the corporation in which they hold stock. It is really the duty of every stockholder to find out all about the company in which he is a partner. These recent efforts of co-operation have been somewhat successful, and the Inquiry Department of THE MAGAZINE OF WALL STREET can bear witness to this fact.

If the stockholder is carrying his stock on margin with a brokerage firm, he may not hold this stock, which he owns, and on which he is borrowing money from his broker, in his own name. It is very likely that the broker has transferred the stock to his, the broker's name, as a matter of marginal protection. However, the client is the actual owner, and, if he retains his interest in the corporation as he should, it is his privilege to direct his broker to send in a proxy, or refrain from sending one in, or even get the broker's proxy made out to himself for use at the meeting of the stockholders.

Personal Liability Stocks—Why They May Be Expensive

The old Minneapolis & St. Louis R. R. Co. was incorporated under the laws of Minnesota and Iowa. Under the peculiar state laws of Minnesota the stockholders are liable for heavy assessments, and it is always the stockholder of record who is liable. Jones may have had 100 shares in his name in 1904, and, if the stock was assessed in 1916, even though Jones had sold it in 1905, he would be called upon to pay this assessment. This situation could exist only with the proviso that the certificate was still in Jones' name on the date of assessment. In this very connection there were several lawsuits and in every case the courts ruled that Jones had to pay.

Bank stocks, Trust Company stocks and many Express stocks, such as Adams Express, are personal liability stocks. Under the rules of the New York Stock Exchange the purchaser is forced to give the seller a "name" for transfer at the time the stock is delivered against sale.

Suppose Jones owned 100 shares of Adams Express stock and sold it. Furthermore, let us suppose that the buyer did not transfer the stock out of Jones' name and that three years after the sale, Adams Express was heavily assessed. Jones, if he was financially responsible, would be compelled to pay the costs, although he was not the actual owner. Many holders of this class of security, at the time of sale, serve notice at once on the transfer office of the company in question that they are no longer possessed of certificate number 12436F and will not be responsible for what may happen in the future. Even this plan is not always successful in shifting the obligations involved. Nearly all large brokerage firms, possessed of this class of security, arrange to transfer the stock to the names of one or more of their clerks who are not overburdened with worldly goods.

Assessments—Loss From Not Paying Them

When a stock calls for an assessment and it is voted on by a majority of the stockholders at a regular meeting, it is necessary for the holder to pay such assessment or lose his stock. In some cases, however, the stock may be traded in as "assessment, unpaid," first paid, second paid, etc. But this is in case that a definite date has not been set for such assessments.

Those stockholders of the old Wabash Railroad who did not pay the assessments have worthless paper on their hands at the present time. There are men still alive who owned Northern Pacific when it was assessed, who refused to pay the money desired, and today they have waste paper to show for their original purchase. Stockholders of Missouri Pacific who did not deposit their stock under the reorganization plan and arrange to pay the assessments of course lost what they originally paid for.

Whenever these Protective Committees are formed, whenever it is possible to exchange stock of a wobbly company for certificates of deposit of a holding committee, or whenever an assessment is called for, the wise thing to do is to GET ADVICE. Usually the legal complications involved are too much for the layman, and it is proper and right for the broker or the Personal Inquiry Service Department of THE MAGAZINE OF WALL STREET to be called upon for advice and direction. In almost all cases a final date is set for depositing stock and making payments of assessments. The broker customarily informs the customer of such dates and gets his permission to act, but this service is a voluntary one on the part of the broker, and it is doubtful if he can legally be held for any error or laxity in this connection.

Lost Certificates—How to Prevent and Insure Against Theft—What to Do—Whom to Notify—Value of the Safe Deposit

WHAT is the first thing to do when you find out that you have lost a certificate of stock? What would you do if you discovered that you had lost a coupon bond unregistered?

The danger from this source is always present, no matter how carefully plans are made. It is not more than a year ago since the registered mails were looted on the way from Baltimore to New York. Many of the stolen securities were found, but some were never recovered. The heavy loss fell upon the sender and in one or two cases, the sender happened to be of the individual type and not a firm or corporation. It might just as well have been a reader of *THE MAGAZINE OF WALL STREET*. It is an insurance to know.

If you own stock, have it registered in your name. This is the first step in insurance. There are two ways of safeguarding this stock. The first, when it is in the possession of the owner, and the second when it is left for safekeeping with the bank or the broker.

Safe Deposit Vaults or Your Broker

The safe deposit vault is the greatest protection for the man who retains his own securities. At all times there should be two lists kept of the holdings, one in the safe deposit box, with the securities and the other should be kept in the personal files of the owner, either at his home or at his office. These lists should show, when the stock, or security was purchased, from whom it was received, a description of the security in full, with the number of the bond or certificate, and the date it was placed in the vault.

If the bank or broker retains the security, and it is paid for and in the name of the owner—or the custodian's name—such custodian should be asked to furnish a memorandum monthly showing that the original certificate or bond is kept in a private parcel separate from the assets of the firm or bank. A guarantee should also be asked to show that the members of the firm or a responsible officer has actually checked the security, looked at it and can vouch for it. There should be nothing left to clerks in this matter. Many a firm has failed and its customers have later found out that their personal property had been used to bolster up the firm's credit.

Get a Receipt for Protection

If the broker or bank should ship security to the customer the sender is responsible for its safe arrival and is continuously responsible until the owner signs a receipt, registered mail, express, or personal, for the goods. If security has been sent to a customer and it is apparently lost, the best thing for the customer to do is to "sit tight" and make the broker trace it. In like manner, if the customer sends security to the broker, the broker is in no way responsible until he signs for possession.

Suppose the security is lost and it is the part of the customer to trace it and find it. Assuredly, quick action is necessary, but usually much time

is lost because of lack of knowledge. The Fire Commissioner prints a warning to theatre goers to be prepared. "Look around for the exits as soon as seated, and in case of fire, do not run amuck, but go quickly and calmly to the nearest exit." Very few stockholders are prepared.

An Authority's Opinion

To quote from Smith's Financial Dictionary, "A coupon bond payable to bearer or a stock certificate assigned in blank is good in the hands of an innocent and bona fide holder who acquires it by honest purchase at a fair market price without knowledge that it was fraudulently obtained by any previous holder even though it may have been lost by or stolen from its owner.

"The recovery of a lost or stolen bond or stock certificate can rarely be accomplished unless it is found in the hands of the finder or of the thief or his accomplice or some person who has obtained possession of it by fraud or under circumstances which will convict him of knowledge or suspicion of fraud on the part of the one from whom he received it.

"The fact that a lost or stolen bond or stock certificate has been advertised by its number does not invalidate the title of an innocent holder, as it cannot be held that the purchaser of a bond or a stock certificate is bound to have knowledge of the advertisement.

"A registered bond is without coupons (in most cases) and is filled in with the name of the registered owner and is payable to him or his assigns. It is not available to any other person until properly assigned or transferred by the registered owner. If a registered bond (as to principal and interest) or a stock certificate, not assigned in blank, is lost or stolen the owner can secure a new bond or certificate by furnishing a bond of indemnity."

LOST!

New York, May 24, 1917.

**100 SHARES U. S. STEEL, Common,
Henry L. Lee No. 593306.**

**10 INTERNATIONAL NICKEL VOT'G TRUST CTFS.
Morgan & Feist No. 7537.**

**40 INTERNATIONAL NICKEL VOT'G TRUST CTFS.
Seligman, Shuman & Polk No. 1749.**

If found, kindly notify

**JONES & SMITH
290 Wall St., New York City.**

*Transfer has been stopped, and all parties are
cautioned against negotiating the same.*

Smith's resume of the situation would seem to infer that there was little chance for the owner of a lost certificate properly assigned to recover, but this is not the case in every event, for if transfer is stopped and proper procedure taken, the innocent holder of the lost certificate can be reimbursed and the real owner get a new certificate.

How to Ship in War Time

War time has suggested many ways of insurance for certificates and bonds coming from abroad. Until the United States went to war, all bonds coming from Germany traveled long, roundabout routes and the coupons were sent separate from the bonds and by a different route from the bond. Stock certificates were sent unassigned and separate powers of attorney were shipped by another route. There are thousands of dollars worth of American bonds in this country, sent from Germany in the early days, which have never met with the original coupons. The latter were lost or confiscated. Sometimes the coupons arrived but not the bonds.

What Corporations Require

Each corporation has its own special requirements to act upon the loss of a security when the owner desires a new certificate issued in its place. In case of loss, the very first thing to do is to write to the company and ask for their own requirements. State the case fully and hide no minor feature. The following steps are the customary ones to secure a duplicate for a lost certificate:

The owner, if the stock is in his name, must send a formal notice of the loss, stating the circumstances, to the Treasurer of the Corporation, and a duplicate to the corporation's transfer office, asking the officials *to stop transfer*.

If the stock is not in the owner's name, the owner must get the co-operation of the registered owner—the name in which the lost certificate stands—and have such registered owner make affidavit of the circumstances, at the same time waiving all rights of ownership to the real owner. This affidavit, with a second sworn affidavit of all the circumstances surrounding the loss, must be sent to the officials and transfer office at once.

The notice of the loss and the notice of transfer having been stopped, must be sent to the secretary of every exchange or known market where trading in the security occurs.

Advertisements of the loss must be inserted in three or more issues of the most prominent financial daily newspapers in each of the cities where the exchanges are located, or markets, on which the security is listed or dealt in. The copies of the newspaper containing such advertisements are to be filed with the company.

Upon all requirements as above having been fulfilled, and after a wait of six months or so, the company will advise about the next step.

A surety bond, perpetual in character, amounting to twice the par value of the lost certificate, the form to be approved by the attorneys of the company, must be given by the owner. The premium, which is large, must be paid by the loser. In case the stock has no par value, the amount lies within the discretion of the company's advisors.

When all these requirements have been fulfilled, a new certificate may be issued by the company after a second period of about six months.

The Loss of Bonds

There is not much hope for the loser of a bearer, coupon bond where the ownership is not definitely shown. Such bonds are almost as negotiable as a twenty-dollar gold certificate. The advertising of the number with

the hope that it may turn up in some broker's office is about the best that can be looked for.

Many bonds are registered as to principal only and carry bearer coupons. This is a very convenient method of protection and the bonds are easily turned back to regular coupon bearer bonds by having the company register them to "bearer" just before sale.

Some Famous Thefts

Some forty years ago the now almost forgotten Austin Bidwell and his clever associates built up a remarkable system whereby about \$5,000,000 was stolen from the Bank of England. Instead of using actual cash, the forgers purchased U. S. Government bonds from well-known brokerage firms in England. These purchases were made as fast as the forged drafts and bills were put through at the Bank of England and the bonds were shipped in trunks to confederates in the United States. Even if the bonds could not be marketed, they could be used for collateral with which to borrow money, and, in the case of these bonds, the borrowing margin was almost at the bid price. Thus, a stolen bond might not appear on the market for years, and, in the meantime, the culprit could take his time about getting away with the proceeds.

A few years ago, a clerk in a well-known trust company in New York City got access to the stock certificate book of one of our largest corporations and made out certificates to his own and friends' names. The only forgery necessary was the names of the officers of the company, the transfer officer and the officer of registration. The mistake this thief made, and they all make some mistake, was to market the stock by actual sale, thus giving an opportunity for the return of the bogus certificate to the transfer

above.	to use the	
of \$30,108.25.	undersigned reserves the	
	right to reject any or all tenders.	
THE NEW YORK TRUST COMPANY, Trustee.		Mo.
By H. W. MORSE, Secretary.		Moibl.
New York, May 1st, 1917.		N. Y.
Certificate No. 1823, for three-fourths		N. Y.
shares of the capital stock of Lehigh Valley		Penn.
Coal Sales Co., in name of Abe Blum, hav-		St. L.
ing been lost or mislaid, notice is hereby		Seaboa
given that application has been made for a		South
renewal of the same.		South,

Newspaper Notification of Reissuance of a Lost Certificate

office to be transferred to the name of a bona fide purchaser. Had the thief negotiated a long-time loan on these certificates with some bank, keeping the shares in his name but assigned, the theft would have been covered up for possibly years. The realization, however, would have been on only about 75 per cent. of the market price of the security.

Every precaution must be taken by the owner of stock certificates and bonds to safeguard. The legal complications and red tape are of such a serious nature that too much care is impossible. Registered mail or express, fully insured, are the safest methods of sending securities and, in the case of registered bonds and unassigned stock certificates, the security may go in one mail to be followed by the detached and separate assignment in another mail.

If you own securities keep a safe deposit vault and a real record of what is in it.

What Happens When Your Broker Gets Your Order?

—Machinery of Purchase and Sale—

What You Should Know

YOU give your order to your broker, and the only thought which comes to your mind in connection with it is, "At what price will it be reported?" If it is a market order, there may be a few hundred operations in connection with it, and just as many possibilities for errors. If it is a limited order, to buy or sell at a certain price, the number of possible operations are multiplied, and therefore the chance for error is increased. In the first example, we will follow the course of a "market order" on the New York Stock Exchange. Only the important steps will be taken into consideration.

What Happens to a Market Order?

You decide, after careful deliberation, to purchase 100 shares of U. S. Steel common at the best obtainable price. The first step is your verbal or written order to the man in charge of the customers. He again writes out on a little slip of paper with the word "Buy" printed on it, "100 Steel." The paper is passed to the Order Clerk, who notes the account for whom the purchase is to be made, and at once passes it to the telephone clerk of the order department. This telephone clerk sends the message over the private wire without the slightest delay to the telephone clerk in a small booth situated at the west end of the floor of the Stock Exchange. The exchange telephone clerk notes that the order is at the market. He writes it down on a "Buy" slip and does one of two things. If the firm's Exchange member is not busy, he presses a button at the side of the booth. This button conveys a message to the broker, somewhere on the floor, by causing a number to appear on a black background on each side of the Exchange. No matter what the broker is doing, or where he may be, his eye is trained to see that number flash at the moment it shows against the black background. That number belongs to him, and he knows it as well as the old time galley slave knew his. It may be that he is occupied with another order at the time. If so, he calls a small uniformed messenger boy and sends him to get the order. These boys are as plentiful as brokers, and one is always at hand.

Either the boy goes for and brings the order, or else the broker goes himself. No one is allowed to run or rush on the floor of the Exchange. A fast walk is all that is permitted. The broker receives the order, folded, so that it cannot be seen by any one else. He glances carefully at it, learns its import and seeks the brokers who are buying and selling U. S. Steel com. Every stock has a separate section for its individual business. Every broker instinctively knows where that locality is.

The Actual Purchase

U. S. Steel com. is a very active stock. There are always plenty of brokers buying and selling and the market is a good one. In untechnical terms, the difference between the bid price and offered price is usually the minimum difference of $\frac{1}{8}$. The first duty is to learn the

real market. Usually the sellers are shouting "100 (or 500) at an eighth." If the offer is for 100, the minimum trading unit, the call is "At an eighth." This means that the seller is offering his shares at $135\frac{1}{8}$. An indicator at the post nearby has the last sale marked on it, and the newcomer can tell the round figures, so that the seller does not need to shout or call "500 at $135\frac{1}{8}$." The fraction preceded by the word "At" is sufficient. The broker, at the same time hears buyers call, "Five for a hundred," or "Five for 500," as the case may be.

If there are more than 100 shares offered at $\frac{1}{8}$, the broker has one of two options. He may "stop" his proposed purchase at $\frac{1}{8}$. That is to say, he will arrange with a proposed seller to sell 100 Steel at $135\frac{1}{8}$ if 100 or more shares sell at that price. Having done this, he may join the other would-be purchasers by bidding 135 for the stock. The first broker to bid a price has "the floor." He is entitled to the first 100 shares sold at that price. As soon as a sale is made, bids and offers are reopened. If two or more brokers bid the same price at the same time, and 100 shares is offered at this bid price, it is customary to match coins to see who is entitled to the sale. If our broker is able to purchase his 100 Steel com. at 135, the "stop" at $135\frac{1}{8}$ is automatically cancelled. But it is not cancelled until our broker actually buys his stock at a lower price or the stock is purchased at the "stopped" price. The other alternative for the broker is for him to buy the stock at once at the offered price. He must use his judgment in such matters.

How It Is Reported

As soon as the order clerk in the broker's office handed the order to his telephone clerk, the former made an entry in his order book. This entry remains there until the report of the purchase reaches him. He is waiting for it, and if there is a delay, he must telephone to learn the cause. After our broker has purchased the stock, he writes on a report slip, which he carries in his hand, the following, "Bot. 100 Steel com. $135\frac{1}{8}$ Bogert." The last is the name of the broker from whom the purchase was made. He either sends the report by messenger or takes it himself to the telephone clerk at the Exchange telephone booth, which his firm rents, and this report is sent back over the private wire to the telephone clerk at the office, who gives a written report to the chief order clerk. The latter notifies the customer's man, who in turn notifies the customer.

A copy of this "filled" order is sent to the clerical department. It must at once go to the margin clerk, next to the Purchase and Sales Department, and again to the stenographer. The order must be stamped with the date, the time of day it was sent and filled, and a copy of the report made out for the customer. The clerks enter it on their books and make a comparison of the transaction with the office of the seller, either direct or through the Clearing House. The bookkeeping record features are part of another story.

The Limited Order

Limited orders may be for "the day," "for the week" or "good until cancelled (countermanded)." Each form tells the nature of the time limit by its title. Suppose the order was to purchase 100 Steel com. at

126. At the time the order reaches the Stock Exchange floor, U. S. Steel com. is selling at 135.

The telephone clerk can use his judgment in doing one of two things. He may call his floor member by number, if he knows such member is not busy at the moment, or he may give the order to a messenger to take to the "specialist." The floor member, upon receipt of the order may not desire to carry this order about with him waiting until Steel com. sells down to the price, and *he* may give the order to the "specialist."

What is the specialist? There are always one or more brokers who do no business except in the stocks located at one "post" or locality. There are from ten to twenty stocks dealt in at each post, and at other sections of the Stock Exchange. These specialists never leave this one part of the floor. They have large, but convenient order books, usually silica slates, on which to enter these orders, "away from the market," and to erase them when completed. The regular charge for buying or selling 100 shares for another broker is \$2 for nearly all stocks. The very low priced shares have a smaller charge in accordance with the rate charged the customer by his broker. The "specialist," in turn, becomes the broker for a broker.

The specialist may have many hundreds of shares to buy at the same price for many different firms representing still a larger number of customers. He shows no favorites, and should not. The first order at a price for Jones is filled before the second order at the same price for Smith. The specialist is the usual holder of "stop-orders" away from the immediate market price and his order book can tell the trading position of a stock better than any other kind of information.

The Odd Lot Order ✓

The basis of trading of the New York Stock Exchange is 100 shares. Anything below 100 shares is an odd lot. As a rule, brokerage firms dealing for individual customers, do not buy or sell odd lots with each other. There are four or five firms which make a specialty of this business. They do not have the outside public, individual customers. Their customers are all the other brokerage firms. The Stock Exchange member for a customer's firm seldom if ever sees an odd lot order. These Odd Lot firms usually retain a large number of members. The members are scattered about the different parts of the trading room, and each one attends to the business covering a series of stocks most convenient to him.

The telephone clerk receiving an odd lot order, knows with which odd lot firm his employer deals. A messenger is sent with the order direct from the telephone booth to the odd lot broker specializing in the stock for which the order calls. The odd lot broker receives the order. If it is a market order, he makes out a report at $\frac{1}{8}$ or $\frac{1}{4}$ above the last sale if a purchase, and below the last sale if the stock is to be sold. Sometimes he waits until a transaction occurs basing the price on "the next transaction." If the bid and asked prices are far apart, and the trading in the stock is very inactive, he sends a quotation to the firm sending the order, asking the customer if he desires to wait until the next sale, or if he wishes the price to be based on a previous sale, or possibly on the bid and offered prices. To the layman, it is a wonderful mys-

tery how the odd lot firms ever keep track of their trades. An explanation is difficult, but the principle involved is that, when the odd lot dealer buys enough odd lots of stock to aggregate 100 shares, he sells that 100 shares in the open market. He pays $\frac{1}{8}$ to $\frac{1}{4}$ less than the prevailing price, and sells at $\frac{1}{8}$ to $\frac{1}{4}$ of a point over the prevailing price. He must watch the market in 100 shares closely so as to be able to get his profit at once. Some firms maintain a speculative position, while others try to even up as rapidly as possible. The small $\frac{1}{8}$ or $\frac{1}{4}$ of a point is not too much to charge for the risk involved. On a very active day, these odd lot firms are filling orders from their offices many hours after the Exchange is closed. The risk is easily apparent, as they must take every order offered them.

The Bond Orders

One section of the New York Stock Exchange is set apart for dealing in the listed bonds. A glance over the official bond quotation sheet of the Exchange gives the novice heart failure to even imagine how it is possible to deal in so many issues. The average member of the Exchange is content to permit the specialists in bonds to do their own work. He knows that the specialist can obtain a better market than he can. In almost every case all orders are given out at once to these men who make bond deals their special business. Except when the order is for a large amount in a bond actively dealt in and at the market very few brokers have the temerity to attempt to fill the order themselves.

As a rule, therefore, the order in bonds goes straight to the bond dealer without the firm's floor member seeing it. The report is sent by the bond broker when the order is filled, by messenger. It takes years of experience to be a specialist in this department and the business is most intricate.

Orders in Curb Stocks

The outside market, known as the Curb Market, follows the plan of the big exchanges. There is a special locality where each stock is traded in. The machinery is not so complete and there is no indicator for the broker to glance at to note the last sale. There is no ticker such as one might watch to follow prices and the report of transactions is not nearly so accurate.

Nearly all firms maintain representatives on the Curb. The representatives may not be associated with the firms except in so far as they may have desk room. Each curb man usually has a telephone located in a building near the curb market and a clerk to receive orders. The transmission of orders to the broker is either by signals or messenger. The casual sightseer would note young boys making all kinds of curious motions with fingers, eyes, body or by printed signs, from windows overlooking the Broad Street Curb. Messengers are running back and forth in much the same manner as on the floor of the Stock Exchange. The same system as to entering the order in a book, stamping it to show the time received, day, hour and minute, is used as for orders on the New York Stock Exchange. The Curb Market has no clearing house and each transaction must be compared between the clerks of buyer and seller. The machinery is more cumbersome. Odd lots may be bought and sold between brokers the same as 100 shares, but on the Curb there are specialists in each stock the same as on the exchanges.

Unlisted and Over the Counter Stocks

There are hundreds and even thousands of different securities which do not have a regular market. This class is also usually high grade and the business is growing more rapidly each day. Many firms and hundreds of individuals make a specialty of certain classes of stocks. Some firms deal in oil stocks, others in steel stocks, some in bank and trust company stocks, and there are also specialists in insurance and munition stocks. Other firms deal entirely in bond issues which are not listed on any exchange or Curb Market.

The various firms handling the accounts of customers know these "outside" specialists. When orders are received from customers in such securities, the transactions are made direct over the telephone. If there are two or more firms specializing in the same class of security as called for in the order, each one is called and the bid and asked quotations are listed. The best bid gets the sale and the best offer brings about the purchase. In this case the telephone does all the work.

The Enormity of Detail

Each order is individual. The many details in connection with the fulfilling of the order and the following of it to the completion of its course involves the entire history and study of brokerage business, including the accounting feature. The outline given in the preceding paragraphs may be of use to the customer in at least making him understand the complexity of detail and the possibility of delay and error. Even the smallest order passes through so many operations and in such a short time that the insurance of accurate completion demands a large premium. The premium for this accuracy is only the commission. It is possible for a small brokerage firm to earn five thousand dollars in commissions in one month and lose it all in ten minutes through an error of either clerk or broker.

A Few Things for the Customer to Remember

The order departments in this country, with reference to brokerage, far surpasses the English or Continental service. The time taken to fill an order is the shortest of any other business known.

Do not expect to purchase 100 shares of U. S. Steel com. at 135 when 500 other people want Steel at that price and only one small transaction occurs at 135.

Do not complain about an Odd Lot order, if you send in to buy 10 Nat. Biscuit at the market, the last and lowest sale being 105, and your report reads 104 $\frac{1}{4}$. You should have either asked for a quotation or specified that your purchase was to be based on "the next sale."

Do not tell your broker to use his judgment. Take your own responsibility and tell him what to do, or what you wish to do. Be careful to mark your order either "Buy" or "Sell" and state how long it is to be effective before you desire its cancellation.

Be certain to give one order at a time. Also be careful to cancel an order if you supplement it with any change.

Try not to make one order contingent on another. Avoid all possible ambiguity. Ambiguity means loss to you and the broker.

Be certain to have a complete understanding about the price of an order when the stock in question sells ex-dividend or ex-rights.

Write your orders and see that they are confirmed.

Transfer Taxes

Conditions of Double Taxation Affecting Buyers or Sellers of Stock

IT very often happens that the customers of a brokerage firm are charged with an extra tax to transfer stock. In almost all cases where this charge appears, the client feels that he has been unjustly charged. He knows that the seller has paid one tax and he can conceive of no condition where it might be necessary for him to supplement this with a second. In like manner there are instances where the seller is charged with a double tax on his sale. This is also an enigma to the customer, who has visions that his broker is either careless or is extracting a little profit from him. It is the purpose in this article to describe certain situations where this double charge is necessary.

A Transfer is a Sale

The broker's client must first of all realize certain facts. In the first place the State laws assume that every transfer of stock constitutes a sale. This may not be the actual case, but no affidavit can make the government change its mind. In the second place, there exists no broker who desires to pay his double tax and go into detailed information to his customer. In the third place, the laws of the various stock exchanges prohibit the broker from assuming this extra charge unless the said broker is actually at fault. The above facts therefore are sufficient evidence in themselves that the broker has every reason to evade this extra charge if it is possible.

There are three systems of taxation which affect the buyer or seller of stocks. Each system is based on the same scale and, in each case, a revenue stamp is used on the sales ticket. There are: the New York State tax; the Massachusetts State tax; and the Pennsylvania State tax. This tax is based on the par value of the stock and is determined at the rate of two cents a share, or fraction of a share, of the par value of \$100. If the stock is of no par value all the State taxes class No Par as though it were \$100. It may be that a stock demands three sets of stamps. Until a definite ruling can be made Baldwin Locomotive, when transferred, requires New York State and Pennsylvania State stamps. Stocks of the Pennsylvania Railroad do not require Pennsylvania stamps. Every corporation interprets the laws after its own fashion, as is the case with respect to legal documents. The seller always pays the tax.

Examples of Double Tax

The following hypothetical situations are instances when the customer should be charged with the double tax for purchase, sale or transfer. In the cases to follow, the broker would be transgressing the laws of his exchange if he assumed the tax, charging it to any of his firm's accounts:

1—Delay In Giving the Broker a Name for Transfer

The customer must realize that, technically, the law demands that the same set of stamps used to effect the sale of a security must be applied to the particular stock involved. However, this rule is impossible

and the best the broker and transfer companies can do is to match the stamps and security as closely as possible. For example, if a security is released from the transfer office on May 26, it is manifestly impossible to use stamps to transfer it again dated May 8. Brown puts in an order to buy 20 shares of U. S. Rubber common at the market on May 7, 1916. The stock is purchased from the Odd Lot broker the same day and is deliverable by the Odd Lot broker the following day, May 8, 1916. The Odd Lot broker cancels his stamps as of May 8, 1916, but he insists that Brown's broker accept the stocks by transfer. Under the present system of doing business the Odd Lot brokers practically force the commission house to accept, not the actual certificate, but a new certificate direct from the transfer office. If Brown intends to pay for the stock and pays for it on May 7, 1916, telling his broker that he wishes to have the certificate transferred to his name, the broker gives Brown's name to the Odd Lot Firm and there is an end to the transaction. If Brown neglects to tell his broker of the disposition of the stock on May 7, or pay for it, until late on May 8, 1916, or a later date, the broker gives the Odd Lot firm his, the broker's name, and the original sales stamps are used to transfer the stock.

On May 9, 1916, Brown decides to have the stock transferred to his own name, paying for it. The stock is now in his broker's name and the sales revenue stamps are used. To effect the transfer to Brown's name, a new set of stamps must be attached to the stock, and it is Brown's fault that such a course is necessary. Therefore, Brown is charged with the cost of the stamps necessary to make the transfer to his name. The State classes a transfer on the books of the company as a sale, whether such transfer is in reality a sale or in fact is not a sale.

2—The Sale of Securities Which Are Not a Good Delivery

All exchanges, including the "curb" have rules regarding the "negotiability" or delivery of securities. These rules are on file in any broker's office and depend upon many conditions. For the purpose of our example, a well-known rule will be used. A certificate of stock accompanied by a detached power-of-attorney is not acceptable to the buyer. Brown presents his 20 shares of U. S. Rubber common with such a detached power. In other words the stock certificate is not released by Brown on the back of the certificate, but Brown has signed a separate piece of paper embodying such a power. Sales stamps are charged to Brown for the actual sale, but before the certificate can be delivered it must be transferred to a name which can be endorsed to the blank power on the back of the certificate. It is a possible chance that the buyer will give his own name, as in the case mentioned previous, but the buyer from the broker is not compelled to give his name, so that the broker may have to first transfer the certificate to his own name. Brown is again responsible and the charge, if necessary, must accrue to him.

3—Delayed Delivery by Seller on Stock Sold Regular Way

Brown sells 100 U. S. Rubber common through his broker, regular way.

"Regular way" means that the actual certificate of stock must be delivered before 2:15 p. m. to the seller the following day. Brown is in St. Louis and the certificate of stock is in his safe deposit vault in New

York City. It is manifestly impossible for the broker to get his certificate in time for delivery, so he borrows 100 shares from the margin account of one of his other customers and makes the delivery. Later, the customer from whom he borrowed the stock desires to pay for it, having it transferred to his name. The broker must use Brown's certificate, but he finds that the date of transfer release on Brown's certificate is a later date than that on the sales ticket which accompanied the other customer's purchase. It is without doubt proper for Brown to pay the tax for the other customer's transfer.

There are many variations of this phase of transfer charge. There may be no charge if the broker must borrow the stock from another broker, the lender not demanding the stamps on its return, and it may be that Brown's certificate will match up, as to date, with the original stamps on the other customer's purchase. This is simply a matter of chance. Again, no buyer is compelled to accept a certificate larger than 100 shares. If Brown sold 7,000 shares and presented one certificate, it would have to be split into one hundred share lots by the transfer office—there would be no charge if it was returned in Brown's name from the transfer office—but the original stamps were used to deliver other stock on Brown's sale, if he delayed presenting the stock until the day of delivery, and Brown must be responsible for future stamps necessary on the new 70 certificates returned.

It is the duty of the broker to protect his customer on all dividends accruing on stock held for said customer. The various companies recognize ownership as only those whose names are on the books as owners of the stock. If the holder of stock does not have it in his name the day the stock sells ex-dividend, he will have to collect the dividend from the man or firm in whose name the stock stands on the books of the company. Unless such registered holder is accessible and willing to part with the dividend, there is a possibility of never collecting by the rightful owner. Even when collected, the registered owner usually charges at least one per cent. for his trouble.

Brown holds 100 shares of U. S. Steel Pfd. in a margin account. To protect him, on April 29, the day the stock sells ex-dividend, his broker transfers the 100 shares to his, the broker's name. This insures the dividend coming to the broker to be placed to Brown's credit. On May 14 Brown decides to pay for the stock and have it transferred to his own name. The original sale stamps have been used to protect the dividend for Brown so that Brown must be charged with another set of stamps to get the stock in his own name.

5—Reorganizations and Protective Committees

It is certainly often difficult for the broker to explain to Brown just why he is charged a double tax on reorganizations and for depositing stock with protective committees. But this charge is very necessary and a very legitimate one. Brown owned 100 shares of the stock of the International Mercantile Marine Pfd. If the stock was not in his name and he desired to place it under the protection of the Wallace Committee, he had to pay double tax, or four dollars. The reason for this is that the original stock had to be transferred to the Committee. This was one tax. Then, a certificate of the committee was issued to Brown. This was a second tax. If the broker had held Brown's stock and had the original sales ticket to present

for the first transfer, Brown would then have been charged with only one tax.

Broker and Client

The relation between the broker and client with reference to these tax matters is always more or less strained. The broker is appointed an agent by the State Governments and he has no other alternative than to obey the laws. Inspectors examine his books at various undeterminate periods and the broker must be more than careful. The imposition of these various taxes has doubled his clerical force and clogged the machinery of clerical work. On the other side, the various exchanges have stringent laws relating to commissions. The assuming of any legitimate tax by the broker, is classed as splitting commissions, for which act the broker is liable to suspension or expulsion. The only time a broker is permitted to pay a tax is when he can prove that such a tax is on account of an error on his part, or on the part of his clerks.

The Customer's Duty

On the other hand, it is the customer's duty to find out why charge is made against him. The broker can always give the reason, and where the reason is one of the foregoing or an indirect result of one of the foregoing, the customer must be charged with the tax.

General Regulations Covering the Transfer of Stocks and Bonds

I. Registration

1. In transferring stock or bonds to the name of an Individual or Firm, the *full* name should be given as it is usually signed, without prefix, suffix, or title.

2. When a transfer is made to the name of a Woman, the prefix *Miss* or *Mrs.* should be given, and the security registered in her individual name, Thus, *Mrs. Jane Doe* and not *Mrs. John Doe*.

3. The titles of Corporations or Associations should be stated in full, including the prefix *The* when applicable.

4. The name of a Trustee or Trustees should be followed by a brief description of the trust.

5. The name of an Executor or Administrator should be followed by a brief description of the will or estate.

6. Transfers to the *Estate of John Doe* are usually impossible. *Richard Roe, Executor (or Administrator) of the Estate of John Doe*, is preferable.

7. Usually Executors, Administrators or Trustees can not transfer to themselves as individuals. If necessarily done, the reason and justification therefor should be shown by a court order or otherwise. The best way is to transfer to a third party and retransfer to name desired.

8. In all cases the addresses of transferees should be stated with particularity.

9. Persons or associations having securities transferred to themselves from time to time are requested to state the name uniformly, in order to avoid the opening of unnecessary accounts and the confusion and inconvenience consequent thereon.

If *John Doe* be a registered holder, the name should not be given as *Jno. Doe* or *J. Doe* at the time of subsequent transfers; and the name *Richard Roe & Co.*, should not afterwards be stated as *Richard Roe & Company* or *R. Roe & Co.*

II. Assignment

1. The assignment on the reverse side of a certificate or bond, must be signed, witnessed and dated. The name of the person constituted as attorney to make the transfer upon the books of the Company, should be omitted.

2. Signatures to such assignments must be technically correct; that is, they must correspond in *every* particular with the name in which the security is issued, without abbreviation, enlargement or change.

(a) The assignment of a certificate or bond registered in the name of John Henry Smith, must not be executed in the name of John H. Smith, J. Henry Smith, or J. H. Smith. If, however, a certificate in the name of John Henry Smith has been signed "J. H. Smith," the incorrect signature should not be erased, but the proper signature "John Henry Smith" should be signed

either directly above or below the incorrect signature and each should be witnessed.

- (b) Titles, if any must be prefixed or suffixed to signatures, exactly as they appear on the face of the security. If the prefix *Miss*, *Mrs.*, *Rev.*, *Dr.*, *Capt.*, *Baron*, etc., constitutes a part of the name of the holder as registered, the signature must include such prefix.

- (c) *Brothers* or *Bros.* must be written as it appears in the security.

3. When a security has been issued in a name incorrectly stated or wrongly spelled, the assignment must be executed both in the name as registered and in the correct name.

4. The assignment of a security registered in the name of *John Doe* and *Richard Roe* must be executed by both.

5. The assignment of a security registered in the name of a woman subsequently changed by marriage, must be executed *Jane Doe, now Jane Roe*. Evidence of the marriage and of the holder's identity, may be required.

6. A detached assignment must contain provision for the appointment *irrevocable* of a person (the name being left blank) as attorney to make the necessary transfer upon the books of the Company, and a full description of the security; that is, name of the Company, Issue, Certificate or Bond Number, and the face amount.

- (a) A separate assignment should accompany each certificate or bond.

7. Any alteration in the wording of an assignment or appointment of an attorney should, whenever practicable, be attested by the signature of every person joining in the execution of the assignment as the assignor or as one of the assignors; and must in any event be attested by that of a person or persons thereunto authorized.

III. Assignments by Corporations or Associations

1. When a transfer is to be made from the name of a Corporation or Association, the certificate or bond must (subject to paragraph 2 below) be accompanied by a copy of a resolution of the board of directors or trustees, authorizing its transfer and naming the officer delegated to execute the assignment.

- (a) This copy must be certified by the secretary of the Corporation as a true copy from the minutes.

- (b) If such a resolution is of a continuing effect, the secretary of the Corporation must certify that the resolution is in effect at the time of the intended transfer.

2. If a transfer is to be made on the authority of a by-law, the security must be accompanied by a copy of the by-law, certified by the secretary of the Corporation as being in effect at the time of such intended transfer.

3. The corporate seal (if the Corporation or Association have one) must be impressed upon the assignment, whether on the security itself or detached, and likewise upon all attestations.

- (a) If a Corporation or Association have no seal, attestations must be acknowledged before a Notary Public.

IV. Assignments by Trustees

1. When a certificate or bond is to be transferred from the name of a Trustee or Trustees, a certified copy of the instrument creating the trust must be submitted.

2. Evidence is required of the appointment of a Trustee or Trustees, (if other than as stated in the creating instrument); of his or their acceptance of the trust, and retention of it at the time of the intended transfer.

3. Assignments by trustees require the signature of all living Trustees. The signature of one alone is not sufficient to justify a transfer of stock or bonds. (See Section V, paragraph 4.)

(a) The decease of a former co-trustee should be proved by a certificate of death when obtainable, or otherwise by credible affidavit, as a condition precedent to transfer.

V. Assignments by Executors and Administrators

1. A certificate or bond offered for transfer from the estate of decedent intestate, must be accompanied by a certificate of the granting of Letters of Administration, and evidence of the retention of the trust by the Administrator or Administrators at the time of the intended transfer.

2. A security offered for transfer from the estate of a decedent testate, must be accompanied by the following:—

(a) A certified copy of the Last Will and Testament of the deceased

(b) A certificate of the appointment of an Executor or Executors, and evidence of his or their retention of the trust at the time of the intended transfer.

3. Presumptively, it is within the power of executors, or either of several executors alone, to sell and transfer the assets of a decedent. A will may, however, require joint action of all the executors.

4. If an assignment is proposed by executors more than eighteen months after the decedent's decease, a presumption arises that the executors have become *Trustees* and must be so treated.

5. Evidence must be furnished of the payment of any inheritance or succession tax imposed by the laws of the States interested, or in lieu thereof, a waiver of notice issued by the Comptroller, Auditor, or other proper officer of such States.

(a) If the decedent was not a resident of the State of New York, and died subsequently to July 21, 1911, a waiver by the Comptroller of that State will issue of right, upon application therefor with a proper presentment of the facts.

VI. Charges for Registration and Transfer

1. When a certificate of stock is surrendered and a greater number of certificates is issued *in the same name, or in any one name*, for a like aggregate number of shares, a charge of 25 cents each is usually made for the additional certificates. There is usually no other charge for the transfer of stock.

2. No charge is made for the registration of bonds, nor for the transfer of registered bonds. A charge of \$1.00 per bond is generally made to cover the actual cost of restoring registered bonds to coupon form, when such restoration is provided for by the mortgage securing such bonds.

VII. Taxes on Registration and Transfer

1. The State transfer tax on stock of any Company transferred within the States of New York, Massachusetts and Pennsylvania amounts to 2 cents per \$100 of par value or fraction thereof. The duty to require payment in advance of making a transfer, is imposed upon the Companies by law.

2. There is now no tax on the registration or transfer of bonds. (See Section V, paragraph 5, as to inheritance taxes on decedents' estates.)

VIII. Transfers In Error

1. In case a name has been filled in for transfer in error, some companies will allow the name to be erased if the erasure is guaranteed by a Stock Exchange member of firm, and will correct if guaranteed against loss by a Stock Exchange member or firm. Other companies furnish forms of their own to be filled out, while the Penna. R. R. Co. and a few others require a detached power of attorney, signed by the original stock holder before making correction.

Lost Certificates

Although the requirements of different companies show great variations, yet the following are the *general requirements* to secure a duplicate for a lost or destroyed certificate:

(1) A formal notice of the loss, with request to stop transfer.

(2) An affidavit, signed by the registered stockholder, stating as fully as possible, particulars of the loss.

(3) Notice of loss must be sent to the Secretary of every Exchange upon which the security is traded.

(4) An advertisement of the loss must be inserted in three or more issues of a prominent daily newspaper, in each city where such Exchanges are located. Copies of such newspapers, advertisements included, must be filed with the company.

(5) A surety bond in twice the par value of the lost certificate, the form of which is to be approved by the company, must be given by the owner of the lost certificate.

(6) Where all above requirements have been fulfilled and consent has been received by the company from the Exchanges interested, a duplicate certificate will usually be issued after a period of about six months from the date of the loss.

New Jersey Regulations

The State of New Jersey, Department of the Comptroller of the Treasury, Trenton, N. J., issues the following circular regarding requirements Respecting the Transfer of Shares of New Jersey Corporations owned by Estates of Non-Resident Decedents:

A strict compliance with these requirements will materially assist in facilitating transfers.

When the entire estate goes to exempt heirs to wit: father, mother, husband, wife, child or children or lineal descendant, born in lawful wedlock, brother or sister, wife or widow of a son or husband of a daughter, churches,

hospitals and orphan asylums, public libraries, Bible and tract societies, religious, benevolent and charitable institutions and organizations (within this State by location or incorporation), waiver will be issued. This fact must be established by filing with this Department—

If the estate is disposed of by will by a copy of the will, certified by the proper legal authority, including the certificate of the executor's appointment, and an affidavit made by executor, certifying names of beneficiaries mentioned in the will who survived the testator, and how they were related to testator. If the estate is not disposed of by will, by the affidavit of the administrator, giving date of death of decedent, place of residence at that time, names of beneficiaries, how they were related to decedent, and what portion of estate each will receive, and the certificate of administrator's appointment.

When any portion of the estate goes to other than exempt heirs, as above recited. Upon the payment of the tax due this State, a receipt therefor and a certificate thereof will be issued.

The deposit with the transferring corporation of the waiver or certificate above provided will constitute sufficient authority for the transfer of the shares stated therein, as contemplated by the law.

To determine the amount of tax due this State, it is necessary to file with this Department a copy of the will of the deceased and a copy of the inventory of the estate (including real and personal property), certified by the proper legal authority, and an affidavit of the executor, reciting the date of death, the residence of deceased at time of death, the names of all beneficiaries named in the will who survived the testator, and their respective relationship to decedent; also, when possible, statement of debts, administration and other expenses.

It is necessary to be informed of the total value of the estate, both as to real and personal property.

Intestate estates can supply like information by affidavit of administrator.

In case of life interest, vested or contingent remainders, etc., forming part of an estate, affidavits should include the age at time of death of decedent, of life tenants, beneficiaries, etc., and such other information as may assist in determining the value thereof.

Statements, unless sworn to, are unacceptable. Documents forwarded are for filing purposes, hence must remain here, constituting the action taken.

Form of Corporation Requirement

The Pennsylvania Railroad Company, Philadelphia, Pa., issues the following circular relating to transfers of its stock and also stock of other companies incorporated in Pennsylvania:

Executors, administrators, guardians and other representatives of the estates of decedents and minors acting under letters testamentary, or of administration or other authority granted by or under the laws of any State or Territory of the United States other than Pennsylvania, or of any kingdom, state, sovereignty, or country, will, before being permitted to transfer stock of this Company standing in the names of decedents or minors, be required to comply with the provisions of the Act of Assembly of this State, of which the following is a copy:—

“AN ACT RELATING TO FOREIGN EXECUTORS, ADMINISTRATORS, GUARDIANS, AND REPRESENTATIVES OF DECEDENTS AND WARDS.” Approved April 8th, 1872.

“Section 1. That it shall and may be lawful for any executor, administrator, or other person representing the estate of any decedent, or for any guardian or other legal representative of the estate of a minor, acting under letters testamentary or of administration, or other authority, granted by or under the laws of any other State or Territory of the United States, or of any kingdom,

state, sovereignty, or country, to transfer any or all shares of stock and registered loan, or either, of any incorporated company of this Commonwealth, standing in the name of any decedent, minor, or cestui que trust, and to receive the dividends and interest, or either thereof, whenever a duly authenticated copy of the will, or other grant of authority under which such transfer or receipt is proposed to be made, shall have been filed in the office of the register of wills for the county in which such incorporated company has its transfer office or principal place of business; and all transfers of stock or loans, or receipts for dividends or interest, heretofore made by foreign executor, administrator, guardian, and others acting as aforesaid, are hereby validated."

The principal place of business and transfer office of this Company are situated in the county of Philadelphia, and therefore the duly authenticated copy of the will or other grant of authority referred to in the Act of Assembly should be filed in the office of the Register of Wills for this county, whose address is City Hall, Philadelphia, Pa. The Register of Wills requires:—**Authenticated copy of Will and Letters testamentary**, under Section 906 of the Revised Federal Statutes, that is—**Certificates of the Official Custodian of the Document, Presiding Judge and Clerk of Court**. Upon compliance with these requisites, he will furnish a certificate, which shall be left with this Company as evidence of the authority of the representative to act. His fee for this service is \$1.50 for filing papers and \$.50 for issuing certificate.

Executors, administrators, guardians, committees over lunatics and trustees will not be permitted to transfer to themselves individually without an order of court. This rule applies also where several of them seek to transfer to one of their number individually, or to one individually, and a stranger. A simultaneous transfer through an intermediary will not be permitted.

New York Stock Exchange Rules for Delivery

1. Securities admitted to dealings upon the New York Stock Exchange, Registered and Transferable in the Borough of Manhattan, City of New York, in conformity with the requirements of Section 1, Article XXXIII of the Constitution, are a delivery:

- (a) Certificates of Stock for 100 shares or odd lots aggregating 100 shares, with irrevocable Assignment for each Certificate, and in the name of a member or a member's firm, registered and doing business in the Borough of Manhattan. Certificates for the exact amount or aggregating the amount of an odd lot.
- (b) Or with irrevocable Assignment witnessed by a member; or correctness of signature guaranteed by a member or a member's firm.
- (c) Or with irrevocable Assignment and each Power of Substitution witnessed by a member; or correctness of signature guaranteed by a member or a member's firm.
- (d) Coupon bonds payable to Bearer, in denominations of \$500 or \$1,000 each, with proper coupons of the bond's number securely attached. Small bonds, under \$500, only in special transactions. The money value of a missing coupon may be substituted only with the consent of the Committee on Securities for each delivery.

Coupon Bonds exchangeable into Registered Bonds and Convertible Bonds must carry all unpaid and unmatured Coupons.

- (e) Registered Coupon Bonds in denominations of \$500 or \$1,000 registered to Bearer, or when transfer books are closed with an Assignment to Bearer for each bond by a member or his firm or witnessed by a member, or the correctness of the signature guaranteed by a member or his firm, registered and doing business in the Borough of Manhattan.
- (f) Registered Bonds in denominations not exceeding \$10,000 properly assigned.

2. Securities contracted for in amounts exceeding 100 shares of Stock or \$10,000 in Bonds may be tendered in lots of 100 shares of Stock or \$10,000 in Bonds, or any multiple of either, and must be accepted and paid for as delivered.

3. Securities with Assignment, or Power of Substitution, signed by an Insolvent, are not a delivery. During the close of transfer books, such securities held by others, than the insolvent, are a delivery if accompanied by an affidavit for each certificate or bond, that said securities were held on a date prior to the insolvency.

Securities with Assignment or with Power of Substitution, guaranteed by a member or his firm, suspended for Insolvency, are not a delivery and must be reguaranteed by a solvent member or his firm.

4. Securities with an Assignment or a Power of Substitution executed by a firm that has ceased to exist are not a delivery, except during the closing of the transfer books. The Assignment must be proved or acknowledged before a Notary Public. (Form No. 3, and for witness No. 9.)

Securities with either the Assignment or any Power of Substitution witnessed by a deceased person are not a delivery.

5. Securities assigned, or a Power of Substitution by a firm that has dissolved and is succeeded by one of the same name, are a delivery, when the new firm shall have signed the statement "Execution guaranteed," under a date subsequent to the formation of the new firm.

6. Securities in the name of a corporation or an institution, or in a name with official designation, are a delivery only when the statement, "*Proper papers for transfer filed by assignor*" is placed on each assignment and signed by the Transfer Agent.

7. Securities with an Assignment or a Power of Substitution signed by a deceased person, Trustees, Guardians, Infants, Executors, Administrators, Assignees and Receivers in Bankruptcy, Agents or Attorneys are not a delivery.

8. Securities assigned by a *Married Woman* are not a delivery. A joint assignment and acknowledgment by husband and wife before a Notary Public, will make such security a delivery only *while the transfer books are closed*. (Form No. 4.)

9. Securities in the name of an *Unmarried Woman*, with the prefix "Miss," are a delivery without notarial acknowledgment, when signed "Miss."

10. Securities in the name of an *Unmarried Woman* (without the prefix "Miss"), or a *Widow* are a delivery only when the Assignment is acknowledged before a Notary Public. (Form No. 5.)

11. Securities of a Company whose transfer books are closed indefinitely for any reason, legal or otherwise, the Assignment and each Power of Substitution must be acknowledged before a Notary Public. (Form Nos. 2, 3; for witness, 8 and 9.)

12. Securities in the name of Foreign Residents are not a delivery on the day the transfer books are closed for payment of a Dividend of Registered interest, *and reclamation can only be made on that day.*

13. Securities in the name of Foreign Residents must be accompanied by an acknowledgment before a United States Consul or Morgan, Grenfell & Co., London, when required by transfer agents.

Several Companies having transfer offices at Grand Central Station, New York, make this requirement.

14. Certificates of stock on which the name of a transferee has been filled in error, may be made a delivery during the closing of the transfer books by ruling of the Committee on Securities. Necessary form of release, cancellation and reassignment will be furnished on application to the Committee on Securities.

15. An endorsement by a member or his firm registered and doing business in the Borough of Manhattan, or the signature as a witness by such a member, of a signature to an Assignment or a Power of Substitution, is a guarantee of its correctness. Each Power of Substitution, as well as the Assignment, must be so guaranteed, or witnessed.

16. *"Coupon Bonds issued to Bearer, having an endorsement upon them not properly pertaining to them as a security, must be sold specifically as 'Endorsed Bonds,' and are not a delivery, except as 'Endorsed Bonds.'"*

Extract from Resolutions of Governing Committee, adopted May 23, 1883.

A definite name of a person, firm, corporation, an association, etc., such as "John Smith," "Brown, Jones & Co.," "Consolidated Bank," appearing upon a Coupon Bond, and not placed there for any purpose of the Company by any of its officers, implies ownership, and is an "Endorsed Bond" under the above resolution.

17. Any endorsement on a Coupon Bond stating that it has been deposited with a State for bank circulation or insurance requirement, may be released and release acknowledged before a Notary Public; it will then be a delivery as a "Released Endorsed Bond."

"Rights" to Subscribe

18. Assignments of "Rights," with the signature of the assignor witnessed and guaranteed in the same manner as other Assignments, as provided in these rules, are a delivery:

- (a) An Assignment of the "Rights" accruing on each 100 shares; or, Assignments of "Rights" on odd lots aggregating the "Rights" on 100 shares.
- (b) An Assignment for the exact amount, or Assignments aggregating the amount, on a sale of the "Rights" accruing on an odd lot of stock.

19. Assignments of "Rights" in the name of a *Married Woman*, *Widow* or an *Unmarried Woman* are a delivery without notarial acknowledgment.

20. Assignments of "Rights" made by a deceased person or a firm that has ceased to exist are not a delivery and must be taken back by the party delivering them.

21. Assignments of "Rights" signed by Trustees etc., or for corporations, etc., are not a delivery, until passed by the Committee on Securities.

Forms for Notarial Acknowledgments and Depositions Prescribed by the Committee on Securities

Form No. 2.

Acknowledgment by an Individual, by Whom an Assignment or a Power of Substitution is Executed.

State of..... }
County of..... } ss.

On this.....day of.....19.... before me,
a Notary Public for the County of.....personally
appeared.....to me known, and known to me to be
the individual named in the within Certificate, and described in and who
executed the foregoing Instrument, and acknowledged to me that he ex-
ecuted the same.

.....
:SEAL:
.....

If used for a Power of Substitution, substitute for the word Instru-
ment, "Power of Substitution, dated.....19....," the date
referred to filled in.

Form No. 3.

Acknowledgment for Firm.

State of..... }
County of..... } ss.

On this.....day of.....19.... before me,
a Notary Public for the County of.....personally
appeared.....to me known, and known to me to be
one of the firm of..... named in the within Cer-
tificate, and described in and who executed the foregoing Instrument, and
acknowledged to me that he executed the same as the act and deed of said
firm.

.....
:SEAL:
.....

.....
.....

If used for a firm that has dissolved, omit the word "be" in fourth line
and substitute the words "have been on.....19...."

If used for a Power of Substitution, executed by a firm that has dis-
solved, substitute for the word Instrument, "Power of Substitution, dated
.....19...." the dates referred to filled in.

Form No. 4.

Joint Acknowledgment of Execution of an Assignment Made by Hus-
band and Wife.

State of..... }
County of..... } ss.

On this.....day of.....19....before me
cameand.....her husband, both of them
known to me, and they severally acknowledged that they executed the fore-
going (or within) Assignment and Power of Attorney, for the purpose
therein mentioned.

.....
:SEAL:
.....

.....
.....

Form No. 8.

Deposition by a Witness of the Execution of an Assignment or a Power of Substitution by an Individual.

State of.....
County of..... } ss.

On this.....day of.....19.... before me, a Notary Public for the County of.....personally appeared.....to me known, who being by me first duly sworn did depose and say that he resides at.....that he knew.....named and described in the.....instrument, which was signed in witness' presence.

.....
:SEAL:
.....

If used for a Power of Substitution, executed by an individual, see instructions in Form No. 2.

Form No. 9.

Deposition by a Witness of the Execution of an Assignment or a Power of Substitution by a Firm.

State of.....
County of..... } ss.

On this.....day of.....19.... before me, a Notary Public for the County of.....personally appeared.....to me known who, being by me first duly sworn, did depose and say that he resides at..... that he knew.....and knew him to be one of the firm of..... named and described in the.....instrument, which was signed in witness' presence.

.....
:SEAL:
.....

If used for a firm that has dissolved, or for a Power of Substitution executed by a firm that has dissolved, see instructions in Form No. 3.

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