WHY STOCKS TUMBLED

No Business Panic and No Prospect of One, Says Georg E. Roberts, Banker—Wartime Causes of Low Prices

By RICHARD BARRY.

A VISIT to the Street in the early part of last week was like a trip through No Man's Land, minus the danger, though just as depressing. The brokers and bankers lay inert in their trenches, paralyzed by the terrific barrage, weak and listless, hardly able to answer questions, and apparently with only one thought: "How long will it last?"

Each day prices had been forced down, down, down, not on speculative stocks alone, but on the sound listed securities, until they touched what seemed bottom prices, lower, in some instances, than they had been for a generation. Listed stocks of the most substantial nature, like steel and selected railroads, went down 3 to 6 points in a day, and gilt-edge bonds 1 to 2 points a day.

Wild rumors of closing the Stock Exchange passed around. Other rumors, promptly denied, credited the Board of Governors with contemplating establishing a scale of minimum prices, despite the fact that in the previous week J. Pierpont Morgan had broken his wonted silence to make the public statement that it would not do to establish minimum prices.

On the Floor of the New York Stock Exchange, Where Prices of Stocks Are 20 to 70 Per Cent. Below Prices a Year Ago.

It was a different Wall Street from the one we saw in April and May, confident in the prospect of war, buoyant with a national program at last solidified and strengthened.

Leading bankers and brokers were asked to elucidate the situation. The house of Morgan sat tight; there would be no panic, no closing of the Exchange, no minimum prices. Moreover, the militant head of the house intimated that the important thing just now was to win the war, not to bother about the prices of stocks; let them take care of themselves. He would not consent to be quoted, even to this extent, but it was gathered that he would not repudiate the expression if it were attributed to him.

Mr. Baker was not on deck. Mr. Vanderlip was in Washington, earning a dollar a year as a servant of the nation. Mr. Noble, President of the Stock Exchange, went to his bed with a severe cold after saying that nobody of importance in the banking world wanted the establishment of minimum prices or favored closing the Exchange. One banker of high repute said explosively, after being assured that his name would not be used:

"No panic! Nonsense! That is exactly what we have been through—a panic. The truth is that we have tested the Federal Reserve Banking act and found it sound. Such a condition as we have had the last week, if encountered in former years, would have meant a panic—perhaps only a panic like we had in 1907, but a panic nevertheless. We have weathered the storm; we have come through safe and sound; not a failure; not a collapse, not even of any little jobbing house; not one single bank high or low even threatened with nasty rumors. It is a triumph of the new Federal organization."

The eminent banker would not even hazard a guess as to what brought the market down; the only thing of which he was sure, beyond the evident fact that Wall Street had survived a panic in all but name, was that prices had touched the extreme bottom; that they could go down no further.

Another authority was sought, a man comparatively on the side lines, formerly Director of the United States Mint—George E. Roberts, now assistant to the President of the National City Bank. In his secluded office, a block from the Stock Exchange, he spoke temperately and soundly of the crashing of stocks. He said frankly that he had not made up his mind as to the wisdom or otherwise of establishing minimum prices, therefore he could present both sides of the question.

"Those who advocate the establishing of minimum prices are, for the most part, investors who have borrowed on the security of their stocks and bonds," he continued. "For many of these the extreme lowness of present prices is an especially grave matter. In many cases the amounts they have borrowed now exceed the value of the stocks at the present quoted prices, which any one must concede are far below normal or reasonable values. In such cases the inevitable happens—the stocks are sold out to meet the indebtedness. Thus the borrowing investor loses not only his security, but any possible future rise in value.

"The prevalence of such cases as these disproves the ordinarily sound dictum that for every loss on the Exchange there is a gain. At such a moment as this, any one in these transactions. The banks are forced, reluctantly, to sell the securities, often at a loss, even if slight, while marginal trading is reduced to a minimum. There is so very little floating money."

"Why is there little floating money, when such vast sums, so many millions, are being spent on every side?"

"That is a question like, 'Why is the market so low?' he replied. It can't be answered either off hand or completely. And any man's answer is only a guess. The obvious reasons are: (1) The demands of the Liberty Loan. Every one has subscribed or has pledged to subscribe about all the spare cash he can muster for the coming few months. (2) The collateral demands of the war, the Red Cross, the hundred and one charities which reach forth on every hand to waylay the pocketbook. (3) The vast needs for new and quick industrial investments to meet the munition and supply demands of the war. (4) The uncertainty of the immediate future. Those who have available cash hesitate to invest it in stocks or bonds, even at the present ridiculously low prices. They would rather wait a bit and see what the Winter brings forth.

"These four major reasons weld together a stream of money conservatism that is sluggish like a choked river. One would think this would offer a chance for the speculative broker to reap a har-

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vest, but it has had the opposite effect; it has just about paralyzed him."

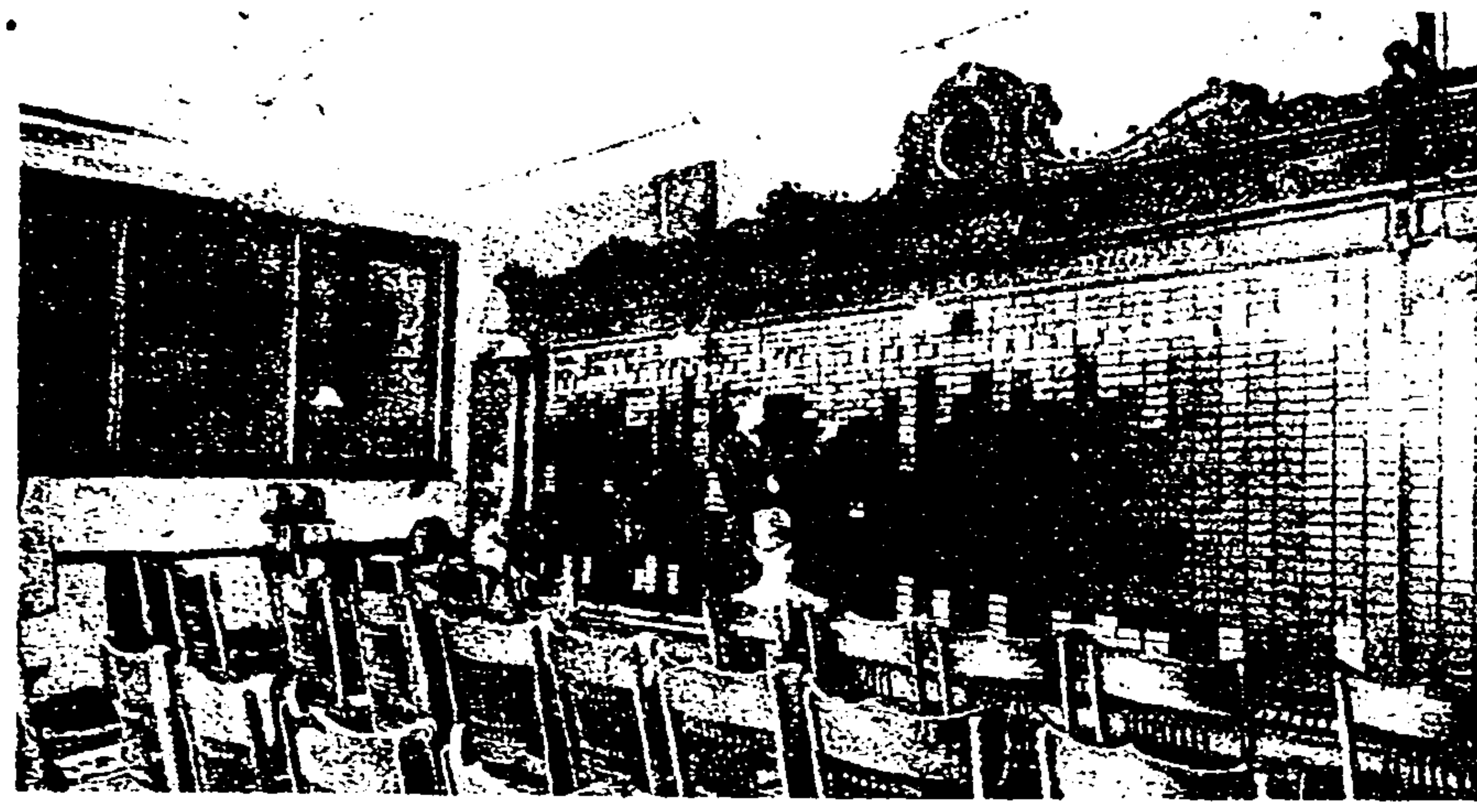
"You said 'the uncertainty of the future.' Do you mean the effects of the Italian disaster?" Mr. Roberts was asked.

"That is the superficial acceleration of it; but you must remember that the market was declining before the Germans began their drive on Italy. Doubtless the news from the Italian front precipitated the slump, which was already on its way. Generally it had the effect of dissipating any peace hope. It made us all realize we were in for a long war. Of course that had been said by public men previously, but Wall Street was rather skeptical of it. But the last week investors have waked up to the probability of a most extended war."

"Why should that depress stocks when such vast sums of money are being spent and the country is unusually prosperous?"

"Well, the last Congress hit securities very hard and cut into the principal, but there may be a fear now that the actions of the next Congress will make the work of the last Congress only a beginning. This very instability of financial legislation has a depressing effect. With the possibility of an early peace, the fear would go; with a long war imminent, the fear is magnified.

"Then, there has been the failure of the Interstate Commerce Commission to increase freight rates. This has affected railroad stocks. Of course, it is all psychological, a term, by the way, much abused, yet no other will describe the condition. Fear, apprehension, uncertainty, timidity—the impalpable, the unknown have been preying on Wall Street. If we knew exactly what we had to face much of this low market would disappear. As it is, we need the '2-o'clock-in-the-morning' courage to meet the situation. Once national as well as international affairs are better defined, the market will right itself."



A Dull Hour in the Customers' Room of a Wall Street Brokerage Firm.

"What are the reasons for not establishing minimum prices on the Exchange?"

"The chief reason is that establishing minimum prices on the Exchange is not at all likely to maintain prices. There would be no way to prevent Curb or office sales. If the Exchange established minimum prices there would be nothing to prevent sellers seeking buyers outside. So it would only lessen the work of the Exchange, and might even have a further depressing effect."

The declaration of the explosive banker that a panic already existed was quoted to Mr. Roberts. He smiled and denied it.

"There is no mistaking a panic. On the battlefield there is a great difference between a reverse and a rout. In a reverse you retreat with morale intact. In a rout you run away from the action demoralized. A panic is a rout. The present low market is merely a reverse, a temporary one, I firmly believe, that has already reached its worst phase.

"A panic like that of 1907 is not possible today. We know each other better. Ten years ago banks operated with far more independent freedom than they do today. A condition like that existing in the Knickerbocker Trust in 1907 could not occur in 1917. Then there was a shortage of currency; there is no indication of that now. Then we had no effective supervision of the affairs of all banks; now we have. Then there was no interlocking system; now there is."

The theory of the triumph of the Federal Reserve act was mentioned.

"The Federal Reserve act," Mr. Roberts said, "has its steadying value, and a most efficient one, but it is not the only steadying fact. Our own New York Clearing Association is far differently organized from what it was in 1907. There isn't a weak sister among us, and if one developed, we would know and be able to apply the remedy long before a disastrous failure was unavoidable.

"But there is a much deeper and more satisfying reason for security right now than the existence of the Federal Reserve act or the excellent organization of the Clearing Association. It lies in the fact that the past decade has not been in any sense a speculative epoch.

"You must remember that the panic of 1907—the so-called 'rich man's panic'—came as the more or less unavoidable culmination of a period of riotous expansion in numberless industrials. A panic, you might almost say, was due. There were so many overexpanded enterprises, so much watered stock, so many feverishly speculative developments, so much imagination uttered in stocks and bonds, such a nation-wide era of overcapitalization and false prosperity that something had to break.

"In the end the panic of 1907 was a benificent calamity. It cleared the air. It swept away the dead wood. It served an effective warning to overcapitalization. And it brought about the reforms which are protecting us now in a far greater crisis.

"In a certain measure, we may say that the panic of 1907 prepared us for the war of 1917 and placed our financial system on an absolutely sound basis, which will easily be able to meet far more vigorous assaults than have been made upon it recently.

"If the decade between 1907 and 1917 had been guilty of the financial sins that were committed in the decade between the Spanish war and the panic of 1907, then we might well fear for the immediate future. But we have a clean, sound record for the past decade; that will be a prime cause in our financial salvation."

The Useless Scarecrow

Uncle Sam: "I reckon it's time to use the gun"