

# SPECULATION

(From Saturday Evening Post.)

Speculation is too elastic a word, that is why there are so many varying opinions on the subject. It applies equally well to legitimate investment and to illegitimate gambling, and it is to the fact that the faults of anything appeal more strongly to the mind than do its good points that the sentiment may be attributed which is more or less hostile to Stock Exchange methods to-day.

The brokers, in giving their side of the question, naturally lay stress upon the economic theory of the Stock Exchange and elaborate upon truths as to the necessity for these institutions which nobody with sense can deny or wishes to deny. Where they fail is in overlooking the difference between theory and practice, in shutting their eyes to evils which are patent, but with which they see no possibility of doing away and probably do not desire to abolish.

The use of credit, both theoretically and practically, is an absolute necessity. The trouble is that, in practice, this use too often becomes an abuse, and Stock Exchange methods smooth the path for this abuse. The exchanges all over the country showed this to be true in the recent panic. The first step taken in steadying the machine down was to put a stop to all marginal operations. "Buy outright or not at all," became the instructions, and deeply surprised and grieved were the multitudinous speculators when they heard it. Where a man could buy only ten shares of stock as against one hundred, for his thousand dollars, his profits on a rise were correspondingly cut down, and he looked with a gambler's contempt on the legitimate gain from the transaction. There, in a nutshell, is the main evil with Stock Exchange methods. To the average speculator it is a gamble pure and simple, and he plays the game like a gambler.

The brokers say that if a man devoted the same amount of care to investigating his stocks' value as

he does to looking into a piece of real estate he is about to buy, for instance, there would be less losses; but is it true? An investor or a speculator can inspect a piece of real estate and can use his best judgment as to its probable appreciation and speculate accordingly. If a man, however, wishes to buy one hundred shares of Union Pacific, is Mr. Harriman going to inform him, that in the course of a week or so, he intends to raise the dividend upon it six per cent. or vice versa? There is so great a chance to-day that the quoted value of a security may equally as well be a manipulated value as a real value that every speculator realizes he is doing business in a state but little removed from blindness. Hence he takes advantage of the marginal method of buying or selling, putting up only a small percentage of the purchase money and using his broker's credit for the remainder. Theoretically he wishes to become a part owner in a railroad, say, and, after paying down a portion of the purchase price, obtains enough money to settle in full by putting a heavy mortgage on his share of the property. Presumably, he intends to reduce the mortgage or to sell out at a profit what he has bought. Practically he pays a thousand dollars for one hundred shares of stock in the road, puts in a stop-loss order for a point or two below where he bought the stock, and bets on his judgment that the value of that stock will rise. Does he plan to stay in that railroad business until he makes the profit for which he invested? Does he plan to put up more margin if the value of that stock declines? Does he wait to make good as he would do in a small business of his own? Generally speaking, no. He limits his losses at the start and gets out quickly when he finds his judgment wrong. He plays on the gamblers' maxim, "Let profits run, but cut short losses."

Stop gambling on margins and the worst evil of stock speculation will be done away with. —K. W. E.

## THE WORK OF THE CAPPER

Legitimate trading in stocks, or the buying of same outright, does no harm and never will, but the margin trade is the curse of this country.

Some years ago I was connected with a Stock Exchange house, presumably as bond salesman, but in reality to influence business, or, more plainly, to act as "capper" for the game. It is against the rules of the exchange to hire any one for this purpose so arrangements are made (with a good drawing account) with a representative of the bond department. This drawing account runs from five thousand dollars to twenty thousand dollars a year, depending on the amount of business one is able to influence.

In the three years I stayed with this job I saw more people go broke than ever went broke on the ponies or at faro. A new man landed for a one-hundred share account, which he could handle safely, would soon be led to trade in larger lots, and shortly would be beyond his depth and a crash in the market would wipe him out completely. A straight faro bank offers better returns on the money than does Wall Street.

Being in the game myself it is very little money that I ever lost at it, and I hold no animosity toward Wall Street, although brokers are a cold-hearted bunch of "tight-wads" when it comes to helping a man that has gone broke at the game. Their interest ceases when he doesn't respond to the margin call, and his account is closed.

I have left the game and gone back on the road

where my salary is not as high, but where I don't have to be drinking all the time to keep my position.

Recently a customer who, through hard work and close attention to business for fifteen years had built up a splendid business found a shortage in his cashier's accounts of twenty thousand dollars. Stocks had done this. Had this cashier been compelled to buy his stock outright and hold it he would not have been tempted, but five hundred or a thousand dollars at a time was small, and a good winning he calculated would repay the borrowed amount. Now this man has lost the work of a life-time.

I know of many like this case. We had a man trading with one of our branch offices in New England. He was a bank cashier in a town about a hundred miles distant. He was operating under an assumed name and had his confirmations mailed to a post-office box in his home town under an assumed name. The firm I was with knew this, still they accepted business from the man. I think he is "in" for seven years. The amount was considerable.

Stock Exchange houses know the danger and seduction of margin trading and will not allow their own employees to play the game, and no Stock Exchange house will accept business from an employee of another exchange firm.

It is the margin trading that should be prohibited, or at least a fifty-point margin should be required on every share of stock traded in. Trading on margin as it is