

SPECULATION—LEGITIMATE AND ILLEGITIMATE.

(From *Hunt's Merchants' Magazine*)

It is impossible to regard with satisfaction the general character of speculation in Wall Street during the last five years, and which now, after the excitements of the war, has, as we have seen during late weeks, lost little of its extravagance. And yet it would be an error to condemn indiscriminately. There is a more or less common idea that all speculative transactions are a species of gambling unwholesome in their effects and demoralizing to the spirit of commerce. This opinion appears to have been formed from observing only the excesses, and lacks the discrimination necessary to a sound judgment of the question. There is a speculation which is essentially legitimate, and the results of which are beneficial to the community at large. It would perhaps be difficult, in some cases, to say where such a movement ceases to be wholesome and becomes illegitimate; but there are nevertheless certain broad distinctions between the two classes of operations.

Properly speaking, speculative transactions are purchases or sales made in anticipation of prospective changes of value. The changes may be due to a variety of ordinary causes; or they may be factitiously produced for the purposes of the operator. In the first case, we should regard the operations as legitimate; in the second, as a mischievous meddling with the regular course of affairs. It would be manifestly futile to declaim against operations based upon anticipated changes in the conditions of supply and demand; for men of foresight inevitably avail themselves of opportunities of profit which their sagacity and capital place within reach. The grain dealer, who from early information as to the prospects of the growing crops perceives that there is likely to be a short crop next harvest, buys up breadstuffs, to be held until comparative scarcity compels an advance in prices. The effect undoubtedly is to promote a rise in advance of the actual deficiency; but, at the same time, it tends to induce an early moderation of consumption, and to invite supplies from other sources, and the result is that, when the deficiency really comes, the rise in prices is much less extreme than it would have been otherwise. The merchant who foresees that an unusually large supply of goods is likely to produce a depreciation of the value of merchandise not only sells out his stock on hand, but also sells for future delivery, anticipating that the decline in values will enable him to cover his sales at a profit. This pressure to sell has the effect of putting down prices in anticipation of the actual occurrence of the increased supply; and in this way the producer or the importer are warned to curtail their supply, or to seek other markets for their goods. The transactions of both the grain dealer and the merchant are essentially speculative, the one being, in Wall Street parlance, a "bull" and the other a "bear," but it will not be for a moment pretended that their operations are otherwise than wholesome in their effects. Their transactions are doubtless productive of changes in prices; but the changes would as certainly occur without their intervention, and would be more sudden and extreme.

The same general principles apply also to transactions in securities. Here, however, values being more fluctuating, less easily ascertained and very much dependent upon a vague public opinion, there is a wider scope for operations, and operators are apt to incur unjustifiable risks. There is nevertheless, a clearly legitimate speculation in stocks. Whatever, for instance, affords good reason for anticipating an increase in the net earnings of a railroad is equally a reason for buying its shares to be held for higher prices; and, *vice versa*, whatever tends to depreciate the value of a given stock affords good ground for selling the stock "short," as the stock phrase goes, i. e., for future delivery. The advantage to the community at large may not be the same in this case as in speculation in commodities; but there can be no moral or economic objection to one availing himself, in this instance, of the advantage which his superior sagacity or knowledge affords.

It is, however, a matter of notoriety that there is much really wild and baseless speculation in stocks, which is positively injurious in its consequences; and it is important to trace out and distinctly define that class of operations. There are excesses due to the exaggeration of legitimate grounds for speculation, and to the creation of fictitious inducements. Wall Street presents a concentration of men of ample capital, quick intelligence and possessing the best facilities for information on all matters influencing the value of securities. Anything affecting the value of a given stock thus becomes known almost instantaneously to all; and the result is an amount of operations in the same direction so large as to produce fluctuations in prices not warranted by the facts of the case. Let it be supposed, for instance, that, from a temporary increase of earnings, a given road is enabled to pay an extra dividend of 5 per cent. So soon as the prospect becomes known, there is a general rush for the stock; the price advances, and the hope of being able to sell out at a profit while the price is so steadily rising keeps up the buying until the stock has advanced 10 per cent. Any advance beyond the 5 per cent. is without justification in fact, and is simply speculating upon chances. This undue advance induces others to sell the stock for future delivery, upon the presumption that it must fall back to its proper value. Not unfrequently these "short" sales are in the aggregate many times over the amount of stock outstanding; so that it happens, when the deliveries have to be made, that there is a demand for the shares producing a further excessive advance in the price, and the consequent losses too often bankrupt both the dealers and their customers. In a large majority of cases these transactions are wholly unjustifiable; for the reason that the operator knows nothing of the extent to which his operations may be

affected by those of other parties; he blindly undertakes heavy risks without being able to judge of the conditions which determine them; and his speculation is consequently an essentially gambling as the throwing of the dice. There is the greatest possible danger of stock speculation based, in the first instance, upon sound considerations, thus lapsing into the most reckless forms of gambling.

There is, however, a large extent of speculation gotten up on purely factitious pretenses. This artificial movement embraces a diversity of devices contrived with much adroitness and practiced from year to year upon the credulous "outside public" without discovery. Wall Street has its seasons, and a programme correspondent thereto. When the crops are being marketed and the merchandise markets are active, money is in demand and securities are apt to be realized upon by mercantile holders and the banks. At that period, the predominant policy of the brokers is to depress the stock market, so as to get securities at low prices. After the crop and trade seasons have closed, money flows freely into the banks, and there is a demand for securities for the investment of profits and from those who had been sellers during the active season. This is the occasion for the brokers to become sellers; and every conceivable expedient is adopted to enable them to sell at the highest possible price. These seasons form the broad groundwork for the speculations of Wall Street; but upon that foundation what a superstructure of indefensible transactions is reared! Not unfrequently intentionally false representations are put in circulation for affecting the value of stocks. Agents are systematically employed for misleading operators. When a clique, after persistently depressing the price of a stock, has been able to procure a large share of it at low prices, it employs subservient pensioners to give "points" to half-credulous brokers, and to significantly hint to friends and operators generally that the stock is "a good purchase," the reasons assigned therefor being sometimes a gross exaggeration of facts, sometimes a pure invention. Here there is unqualified dishonesty. It is considered the proper culmination of a clique movement for an advance that it should issue in "a corner." By expedients well understood on the street, the stock is run up to a price so extravagantly high that everybody sells it for future delivery, the clique themselves being the buyers and yet almost the exclusive holders of the shares; the result is that when the time comes for the deliveries of the stock the clique make their own prices for it. It was by an operation of this character that nearly all the stock of the Harlem Railroad was secured by one operator almost free of cost. Such operations also are conducted wholly irrespective of the value of the stock; they are a blind venture upon chances; they are unattended with any increase of the average wealth of the parties engaged in them; there is no gain in them, without an equivalent loss to others; they hold in useless employment a large amount of means which might otherwise be devoted to productive purposes; and they are, therefore, to say the least, a mere gambling employment of a vast amount of wealth. It is not surprising if in this exciting game of chances, railroad directors should be tempted to make the interests of their roads subservient to private speculations; nor if bank officers should conspire with clique leaders to derange the money market; nor if even legislatures, the judiciary, and the press should become the tools of combinations. It is high time these irregularities were expunged from the business of Wall Street.

LATEST EUROPEAN COMMERCIAL NEWS.

(London Cor. N. Y. Financial Chronicle.)

LONDON, Saturday, April 4, 1868.

WITH the exception of the cotton trade, business during the present week has been rather quiet, but a healthy tone has prevailed, and prices have ruled firmer. There have been no important features in any department, with the exception of that for cotton, but yet the impression very generally prevails that trade is gradually improving, and that, as the year advances, the volume of our mercantile transactions will increase.

I have often alluded to the fine weather that we have experienced for sowing winter wheat. We are now fairly in the spring, and the weather is probably as propitious as could be wished. March was, without doubt, pre-eminently fine. Being dry and dusty the farmers had a good and unusual opportunity for preparing the land for their spring crops, and hence both winter wheat and spring corn have been planted under the most favourable circumstances. Wheat has been planted on every available acre of ground, and it follows, therefore, that the breadth under cultivation is much larger than in former years. The existing high price has had the natural effect of extending the cultivation in this country, and a similar effect has also been produced abroad. After next September it is expected that our position respecting a supply of breadstuffs will be very materially improved, and that more stability will be given to the commercial situation. At present, however, the position respecting our supplies of cereals is somewhat critical. The poorness of our own crop, the light weight per bushel, and the small quantity of farina contained in the produce, combined with the scarcity of wheat in many consuming countries abroad, lead to the conclusion that any untoward circumstances that might happen would cause the value of wheat to rise before the new crop commences to arrive. We have to wait about five months before we can expect new English wheat in any considerable quantity, during which time the consumption must be very large. The recent considerable purchases off the coast, by Continental buyers, have suggested the not improbable circumstance that the nearer the French approach the close of the season the more necessary will it be for them

to make purchases abroad. Wheat is still very dear in France, and as the French are very large consumers of bread, a scarcity of produce in that country is a matter of serious importance. But still the fact must be borne in mind that their harvest is earlier than ours, and that they are consequently further advanced in the season than ourselves. In the South of France new wheat, in an average season, would be ready for consumption about the middle of June, and protracted as in this country. So long, then, as our position with respect to breadstuffs is as I have indicated we cannot expect business will be entered into with real confidence. The fineness of the weather of late, and the more encouraging prospects in regard to agricultural affairs have not been without their influence, and hence there is more cheerfulness in business circles notwithstanding that there is no material increase in the amount transacted. A bountiful harvest and cheaper bread will tend very materially to clear the way of some of the unfavorable circumstances which have had of late so great an influence in checking the return of commercial activity. The wheat trade, though quiet, is very firm, and the finer qualities of produce have realized an improvement in price of 1 per quarter. The market presents no fresh feature. Our imports have of late been very large; but so great is the demand that no accumulation has taken place.

The cotton trade has been full of excitement during the week, and the result has been that American produce has risen in value to the extent of 1½d. per lb. There are very few people who say that the advance is not justified by the value of the supply and the demand.

The Board of Trade returns, showing the extent of our imports and exports during the first two months of the current year, have been published this week. They show that the declared value of our exports of British and Irish produce and manufactures in February was £14,340,179 against £14,446,073 in 1867, and £15,116,068 in 1866; and in January and February £26,593,667 against £27,232,914 and £29,470,811. The computed real value of the principal articles imported in January was £9,477,083, against £10,063,063 in 1867, and £10,394,443 in 1866.

AMERICAN MANUFACTURES ABROAD.

(From the N. Y. Commercial Bulletin.)

THE question of providing a foreign market for our manufactures is of paramount importance, as on its solution will depend whether our country is to take its proper rank among the leading industrial communities of the world, or to have the products of its skill, its intelligence and energies confined within the narrow limits of the home market. It is needless to enumerate the special causes that have led to the diminution of the export trade of our domestic fabrics, as they are too well known. Under a regime of depreciated currency, heavy taxation, and consequent high prices, the exports of domestics, from New York and Boston, which in April, 1860, amounted to 41,084 packages, fell in 1867 to 2,766 packages for the same period. Prices having assumed a more normal condition this year, the returns show an increase to 7,971 packages, which fact proves conclusively that by the aid of a sound commercial policy that shall studiously ignore special interests when the public welfare is concerned, we may soon, not only regain the lost ground, but create a demand for our manufactures in every port where our commercial enterprise is known and appreciated.

To effect this desirable consummation it is absolutely necessary that we should revise our tariff on a more liberal basis. The present enormous duties were levied not only to produce a large revenue in gold, but also to counteract the effect of the heavy internal taxes raised on our home industry. As these burdens will be greatly alleviated, where not actually removed, and the relief thus accorded must eventually infuse a fresh vitality among the manufacturing interests of the country, we must be careful not to make of this boon a misfortune in disguise. Such will inevitably be the case if this relief from taxation accorded to the manufacturers is not followed by a liberal concession on the present tariff. This reduction on our home products is equivalent to so much in addition to the present duties, and the effect will be to annihilate the import trade in all articles of cheap production which are principally consumed by our poor and medium classes. The natural sequence is clear and undoubted. Our large importing trade will be seriously crippled, and the receipts from customs so materially diminished as to be insufficient to provide the interest on the public debt. This would necessitate the levying of increased taxation, and the people, on finding that in order to protect a few favoured corporations they were obliged to carry all the burdens, they would either in despair repudiate their own national liabilities, or following the example of England, would sweep away every vestige of protection and launch out freely and boldly into Free Trade.

Every consideration of prudence therefore points to the necessity of providing a healthful rivalry to our own industry by the admission of foreign products on a moderate tariff. With this emulation, and with prices returning to their normal standard, we shall be enabled to hold our own in many markets of the world, and the effect will be not only to greatly enlarge our commercial relations with foreign countries, but we should be spared the quasi comical condition of suffering from a violent congestion, with a panic in prices, which a few months' accumulation of the products of our mills now inevitably produces. The more this matter is calmly canvassed among the trade the better it will be for the country at large.