

THE FLOOR DEPARTMENT

MEMORANDUM

August 8, 1962

On July 25 Mr. Charles H. Jewett appeared before the SEC. After his appearance he and his lawyer came to our office and told us what questions Mr. Jewett had been asked. They are shown on the attached memorandum.

Today, I asked Mr. Jewett if he would tell me what his answers were to these questions. Mr. Jewett said, to his best recollection, his answers were as follows:

3. Q. Did he ever compete?

No

4. Q. How did the merger of Travers & Bartsch and Hume & Thompson come about?

A. He said at one time there were four members registered in his stocks; that Mr. Field of Joseph Walker & Sons transferred his membership leaving only three members; that they decided that they would rather be overmanned than undermanned and, therefore, merged with Travers & Bartsch.

5. Q. What does his job as specialist consist of?

A. Maintaining fair and orderly markets; keeping track of orders given to him by other brokers and quoting markets.

6. Q. Which is more important - the brokerage or the dealer function?

A. Neither one is more important than the other.

7. Q. What is the cause of thin books?

A. The higher commission rates. In the old days, due to the low commission rates, office traders could trade in and out on a day. There now are more institutions and they do not trade in and out. In other words, the market does not have the in and out traders that it used to have.

8. Q. Are thin books caused by the fact that there are more stocks and more volume?
A. No
9. Q. Has the size of orders changed?
A. Yes. There has been an increase in institutional orders and comparatively speaking they are usually large.
10. Q. What he recalled about the 1922 controversy regarding specialists.
A. Does not recall anything about this controversy.
11. Q. Did he feel more responsibility to the Commission business or the specialist business?
A. He feels equal responsibility to both.
12. Q. Does the fact that there are thin books cause the specialist to trade more?
A. Yes
13. Q. How he opens a stock?
A. He pairs off orders and buys or sells for his own account where necessary in order to insure a fair price. He called their attention to the fact that a Floor Official's approval must be obtained before a stock under \$20 can trade at one point or more from the last previous sale and a stock \$20 or over can trade two points or more away from the last previous sale.
14. Q. When did split openings end?
A. He does not recall when they ended.
15. Q. Stopping Stock. How does it help make a closer market?
A. It brings the bid and offer closer together.
16. Q. Does he ever stop stock without book orders?
A. Occasionally he does in cases where the market is very wide.

17. Q. Why couldn't stopped stock be printed and customers subsequently be given an explanation?
- A. Mr. Jewett does not recall his answer to this question.
18. Q. Isn't the specialists' customers deprived of an execution when he stops stock?
- A. Not in his opinion but it is possible that they could be.
19. Q. Aren't brokerage judgment orders and "not held" orders same thing?
- A. Yes. He was told a year ago he could not accept. He did accept them previously. He was asked was he aware of 1952 order against "not held" orders. Mr. Jewett answered in the affirmative.
20. Q. Does he bid for blocks of stock?
- A. Occasionally he does bid for a block of stock but he does not really bid for big blocks of stock.
21. Q. Do specialists generally bid for blocks?
- A. Some do and some do not.
22. Q. Which of his stocks have institutional interest?
- A. Johns-Manville Corporation and Bristol-Myers
23. Q. Does he feel there should be a discount for blocks?
- A. He does not feel qualified to give an opinion.
24. Q. Which of his stocks were attractive to Floor Traders?
- A. U. S. Smelting, Refining & Mining Co. because the books are thin due to the small capitalization of the company.
25. Q. Were Floor Traders helpful to market?
- A. Yes

26. Q. Regarding E on Page 16 is the picture shown with respect to commissions and profits a general picture? Was he surprised by figures?
- A. He never figured his commission and profits ratio out before, therefore, he cannot say. He was surprised only because this was the first time he had figured the ratio.
27. Q. Why is there such a wide variance in the commission-trade ratio between specialists? Some have 30 Commission - 70 Trading, others 70 Trading - 30 Commission. How does he account for it?
- A. Some specialists have commission stocks that do not need trading, and others have stocks that do require trading. Also, a specialist might have a bad year insofar as his trading is concerned.
28. Q. How does he quote a stock?
- A. It depends upon the stock itself.
29. Q. What is his least active stock?
- A. American Crystal Sugar Co.
30. Q. What is the obligation of a specialist in a market break?
- A. To maintain the market.
31. Q. How does he decide how to do it?
- A. It depends upon the market conditions.
32. Q. What is his average position?
- A. He does not have an average position. His positions vary with the market conditions. He considers himself a small specialist. He does not carry large positions. However, his positions might run as high as one thousand or two thousand.
33. Q. Most specialists reduced their inventories in January, did he? Why?
- A. A specialist might have reduced his inventory because of Income Tax or he did not like the over-all market. Yes he did reduce his inventory.

34. Q. His opinions regarding testing of specialists, i.e., Form 81, %TTV, %STAB.
- A. He feels the Exchange does a very good job. They are asking for reports all the time.
35. Q. Does he feel stabilization percentage really shows stabilizing?
- A. Yes
- Q. He was asked if he considered the sales he made on May 28 on an up-tick stabilizing?
- A. Yes
36. Q. What was his situation on day of Eisenhower's heart attack?
- A. He bought stock like all the other specialists. All his stocks opened on that day.
37. Q. Question 18 of questionnaire showed investment position of U.S. Smelting. Did he check counsel or Exchange regarding this?
- A. No
- Q. Was the stock available to the market?
- A. Yes
- Q. He said he was asked if aware of Internal Revenue Code which stated stock could be held as capital gains only if not available to market?
- A. No
38. Q. Does he have contact with his listed companies?
- A. He has the usual contact that the Exchange wants him to have.
39. Q. Stop loss orders.
- A. He approves of stop loss orders but feels that there should be a limit on them. This would prevent wide fluctuations.

40. Q. Does he appear for new stocks?
- A. Yes
- Q. Would he like another stock?
- A. Yes
- Q. Why hasn't he gotten a new stock?
- A. He does not know. He was never told.
41. Q. Has he heard rumors that it doesn't pay to apply for a new stock?
- A. No
42. Q. Item 21 of questionnaire - Why does he have two accounts?
- A. One of these customers was a friend of his partner. The other man was introduced to them by this friend before he became an officer of Bristol-Myers Company.
43. (a) Q. Does he get orders for execution at the close?
- A. Occasionally
- (b) Q. Does he know why such orders are entered?
- A. No, however, foreign orders usually are done part in the morning, part at night and part at the close in order to get an average price in the stock.

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