

AFTERNOON SESSION

2:15 P.M.

The Presiding Officer: The hearing will be in order.

Are you ready to proceed, Mr. Paul?

Mr. Paul: Yes, sir.

Mr. Presiding Officer, the first witness for the industry this afternoon will be Shearson, Hammell & Company. The person who will testify will be Mr. M. D. Safanie, directing partner, Mr. Robert C. Van Tuyl, managing partner, and Mr. J. B. Dunbar and R. J. Teweles, partners. They are represented by Mr. Frank Crabill and Mr. Leonard Joseph, of the firm of Dewey, Ballantine, Bushby, Palmer & Wood. Whereupon,

M. D. SAFANIE

ROBERT C. VAN TUYL

J. B. DUNBAR

R. J. TEWELES

were called as witnesses and, having been first duly sworn, were examined and testified as follows:

The Presiding Officer: Gentlemen, it is customary in Commission proceedings to advise all witnesses of their constitutional privilege. Since you are here represented by counsel, I assume your counsel has so advised you, and if in the course of the testimony you have any reason to consult

counsel as to the availability of the privilege, of course, you may be perfectly free to do so.

Proceed.

EXAMINATION

By Mr. Paul:

Q Mr. Safanie, could you state your name, position and address for the record, sir?

A My name is Murray D. Safanie. I am the directing partner of Shearson, Hammell & Company. My address, did you say?

Q Yes.

A Katonah, New York.

Mr. Paul: Mr. Van Tuyl, could you state your name, position, and address for the record?

Witness Van Tuyl: Robert C. Van Tuyl, managing partner, Shearson, Hammell & Company, 14 Wall Street, New York.

Mr. Paul: Mr. Dunbar, would you state your name, position, and address, for the record?

Witness Dunbar: John B. Dunbar, partner, Shearson, Hammell & Company, Los Angeles, California.

Mr. Paul: Mr. Teweles, would you state your name, position, and address, for the record?

Witness Teweles: Richard J. Teweles, partner, Shearson, Hammell & Company, Los Angeles, California.

Mr. Paul: I understand that with respect to the matters of organization, training, and similar matters, Mr. Van Tuyl will be answering the questions. Is this correct?

Witness Safanie: That is correct.

By Mr. Paul:

Q Mr. Van Tuyl, I would like to ask first about the organization and business of Shearson, Hammell. Could you tell us when the firm was organized?

A The firm was founded in 1902 as a member firm of the New York Stock Exchange.

Q Could you tell us what its primary activity is?

A Its primary activity to this day is the execution of business on the New York Stock Exchange and other exchanges of which we are members.

Q This is substantially an Exchange commission house, is this correct?

A Exchange commission business is still the majority of our business, sir. We have important elements of our business transacted elsewhere.

Q Could you tell me, sir, which exchanges the firm is a member of, the principal or national exchanges?

A Yes, sir. We are members of the New York Stock Exchange, American Stock Exchange, the Pacific Coast Stock Exchange, the Midwest Stock Exchange, the Canadian Stock

Exchange. Do you wish a list of the commodity exchanges, sir?

Q I think it is sufficient for our purposes to state you are also a member of the commodities exchanges.

A We are members of nine commodity exchanges.

Q Are you personally a member of the New York Stock Exchange?

A I am not, sir, no.

Q The American Exchange?

A No, sir. I hold my firm's membership in the Pacific Coast Stock Exchange.

Q Are you a member of a special committee?

A I was a member of the Special Committee to Investigate the American Stock Exchange, known popularly as the Levy Committee, yes, sir.

Q Is your firm also a member of the National Association of Securities Dealers?

A We are, sir.

Q I would like to get, if I could, an idea of the size and scope of operations of your firm. Can you tell me how many partners there are in your firm?

A There are presently 27 general partners and 7 limited partners, all of whom are retired general partners.

Q And the number of employees altogether?

A Approximately 1950.

Q How many registered representatives do you have?

A We have approximately 625 people registered with the New York Stock Exchange, of whom only about 570 are engaged in acting as registered representatives. The balance are service personnel, secretaries to partners, order clerks who happen to be in contact with the public, and things of that nature.

Q They are registered simply because they occasionally have contact with the public, but they are not primarily engaged in the sales of securities?

A Precisely.

Q How many branches do you have?

A We have 45 branches in this country and two outside of the continental United States.

Q Could you give us an idea of the geographical range of your branches?

A Yes, sir. There are 9 metropolitan New York City area, 3 up-State New York, 3 in Massachusetts, 4 in Connecticut, 4 in Florida, 3 in Texas, single offices in Illinois, Michigan, Minnesota, 2 in Arizona, 11 in California.

Q So that generally you span the country but in groups. Is that a fair statement?

A That is correct, sir.

Q Do all of these branch offices conduct a general business?

A Yes, sir.

Q Do they largely operate as autonomous units or do they operate generally under the supervision of the home office?

A The office in New York maintains a general policy control and supervision over all branches of the firm. Below the level of top policy and top level supervision in areas of administration and day-to-day supervision, we are decentralized in the respect that the partners in Chicago have certain responsibilities with respect to the Midwestern offices and partners in California have certain responsibilities with respect to Pacific Coast offices. The southwest, the southeast, and the northeast are administered almost completely by New York.

The Presiding Officer: Do you have underwriting originations around the country, or would they be essentially New York?

Witness Van Tuyl: The underwriting department is completely controlled and operated in New York. A piece of business may come to our attention through an office remote from New York, but the processing is complete, and control is complete in New York City.

The Presiding Officer: That would be essentially handled in New York?

Witness Van Tuyl: That is right.

The Presiding Officer: How about trading markets?

Are there separate trading markets in any of the areas or any particular branch offices?

Witness Van Tuyl: Yes. If it is a national market name and we are maintaining a market in the stock, the market is maintained in New York. In addition to that, trading facilities are available in the firm's Chicago Office, Los Angeles Office, San Francisco Office, and to a quite modest extent our Hartford, Connecticut, and Springfield, Massachusetts offices.

The Presiding Officer: The list of securities in the latter offices would be separate and different lists from the main list in New York?

Witness Van Tuyl: Yes, sir. No two offices make a market in the same security.

By Mr. Paul:

Q I wonder, Mr. Van Tuyl, if we could get an idea of the growth of your company. Could you give me an idea of the number of employees that you have altogether, ten years ago? You say you have 1900 now.

A Anticipating that question, Mr. Paul, and by your leave, I took off some figures which are not quite a ten-year figure. I took the first postwar year versus 1961 or 1962 since the growth of this firm has happened largely since World War II.

In 1946 we had 13 general partners and one limited

partner. Today we have 27 and 7, as I indicated. Total employees in 1946 were approximately 275. Today they are 1950. Registered representatives in 1946, 50, in 1962, among those serving as registered representatives, 570.

Q Do you have figures for the same period on the number of branch offices?

A Yes, sir. In 1946 we had 7 branch offices. Today we have 47.

Q So there has been a rapid expansion in the number of branches and the selling personnel in the postwar period?

A Yes, sir. If I may, I would like to digress a little bit on this rate of expansion. I don't think it is totally irrelevant in terms of the additional workload put upon the firm by our growth. In 1946 approximately 20 to 25 per cent of the business which we cleared through the New York Stock Exchange was generated by the branches of Shearson, Hammell & Company. The balance is what we call correspondent business, business which we cleared for other member firms not having offices in New York City.

At that time the percentage of business which we were clearing related to the New York Stock Exchange total reported volume was only slightly less than that which we are presently clearing. The difference has been that today 85 to 90 per cent of the business that we handle and clear is generated by Shearson branches. Only 10 to 15 per cent is

clearance for other member firms. So that the growth picture is not quite as simple as it might appear from just a casual look at the statistics.

Q Do I understand that whereas you formerly conducted a small amount of Shearson, Hammell business and a great deal of business for other non-New York firms, now you handle most of your business for Shearson, Hammell, both New York and outside of New York branches, and very little for others? Is that a fair statement?

A That is correct, sir.

The Presiding Officer: Would you have any comment or explanation, Mr. Van Tuyl, as to what brought about this change that you just described? Is this greater emphasis on your own selling or is it some change in the structure of your offices, or what brought it about?

Witness Van Tuyl: It was part of a deliberate plan on our part to broaden the base of our business. I think it is pertinent, also, to point out in 1946 between 90 and 95 per cent of the firm's revenues were derived from the execution of business on the exchanges throughout the country. The balance might have been over-the-counter. It might have been commodities business, and the other elements of the business.

We were not in the underwriting business at all. We were not in the mutual fund business at all. We made no

secondary markets in common stocks or bonds. It was our concept that if we were to serve the needs of the investors throughout the country over the years to come, we should adopt what, within the family, we have called the department store concept. That is, we should try to make ourselves professionally able to service all the needs of the investors, be it securities listed on the Stock Exchange, bonds, new issues, mutual funds, or anything else that might meet the need of the individual investors. We felt it was wise of the firm to have its own representation throughout the country to enable it to grow and build itself in these various fields.

By Mr. Paul:

Q In the growth that you have been involved in, I have been interested in the Form OTC-3 submitted by the special study which you filled out and supplied us some extensive answers to. I wondered if you could describe generally the growth of the over-the-counter business done by your firm since 1949 in terms of number of shares sold and the value of shares sold?

A I don't happen to have those figures in front of me, but as part and parcel of this program I mentioned, we were not underwriters and made no markets in secondary securities in those days.

In 1949 the over-the-counter volume was largely the execution of agency orders which may or may not have been

solicited. In 1961 we were maintaining markets in common stocks, corporate bonds, municipal bonds, throughout the country. I think it is fair to add, also, that over the years we have developed a certain specialization in our research department looking into the over-the-counter securities and not confining our view necessarily to just that relatively small group of listed securities. Whereas in 1949 our policy was confined to the major companies listed on the exchanges.

We have become managing underwriters, and underwriters, which has given us a live interest in the security market we have underwritten.

Q In 1949, from your questionnaire, it would indicate that you sold an estimated 237,000 shares in the over-the-counter market with an aggregate value of \$5 million, while in 1961 you sold in excess of 18 million of shares with an aggregate value in excess of \$266 million.

Would this largely reflect an equal increase in the number of securities in which you make a market or general growth in volume or a combination, or how would you describe it?

A In 1949 I doubt if we were making a market even by the end of that year in more than a half dozen securities. It was about the time we started. Also, this process evolving from the clearance business to our own business had begun to set in, but had not come to full flower.

Q Can you tell us how many securities you are currently making a market in?

A Pardon me, sir?

Q Could you tell us how many securities you are currently making a market in?

A Nationwide, common stocks, my guess would be something between 60 and 70, sir.

Q Mr. Van Tuyl, as a matter of firm policy, do you have members of your firm as directors on listed companies and over-the-counter companies?

A May I state it the other way? We do not have a policy which prohibits it.

Q Do you have directors of listed companies?

A Yes, we do, sir.

Q Do you have directors in over-the-counter companies?

A Yes, we do, sir.

Q Could you tell approximately how many in each category?

A I would say there are probably about 7 directorships of listed companies and perhaps 8 to 10 directorships of unlisted companies. I can get you the precise information if you like.

Q I think we have some of it in your OTC-3. Could you describe generally the kinds of companies in which you have directorships or the circumstances or reasons which

compel you to have directors in companies, and not to have them?

A I would say the initiative has invariably come from outside the firm. Many Of the cases where we hold directorships, the company has been an investment banking client of the firm and has sought to have access to and the benefit of the advice in financial matters of a principal of our firm. I know of no case where we have taken the initiative and ingratiated ourselves onto a board of directors.

The Presiding Officer: In connection with underwritings, it is not a policy to accept representation on the board of companies, the securities of which you have underwritten?

Witness Van Tuyl: It is not a policy to accept that, no. I know of no cases where we have taken the initiative to ingratiate ourselves. On the contrary, we have turned some down.

By Mr. Paul:

Q Some of the companies in which your firm has directorships, I take it, are firms in which you are making a market?

A There have been those, and there are those, yes.

Q With respect to the organization of Shearson, Hammell, your internal organization I am speaking of, could you describe for me the major divisions within the firm and

their responsibilities?

A I should try, sir. It is not quite as compact an answer as your question might suggest. The partnership in this partnership agreement lets the day-by-day, week-by-week policy control and supervision of the firm stand in the hands of an executive committee of five partners. All of the activities of the firm head up in one way or another to one of those five partners.

There is, for instance, a partner in charge of what we refer to as our institutional department, which includes the entire investment banking functions syndication, institutional coverage, secondary market trading. There is a partner who directs the research and investment advisory activities. There is the senior floor partner who directs all floor activities of the firm. There is our directing partner, who is our firm's chief executive officer, responsible basically for the formulation of policy. I am the remaining member of that committee, responsible for administration.

Those are the major elements of the organization. In each of these areas there are other partners charged with specific responsibilities and reporting to the member of the executive committee. We have no division which is responsible in and of itself for the management of branches. On the contrary, the partner in charge of the institutional department has cognizance with respect to the operation of

the branches in investment banking operation and syndication.

The partners in my end of the business are responsible for the detailed operational administration of the branches. The research partner similarly has direct contact with the branches in the matter of security selection, investment program, portfolio review and the like of that.

Where questions arise as to the propriety of an order, its terms, or the propriety of its execution, that is referred to the floor partners. So it is a functional type of supervision, sir, as opposed to a horizontal kind of organization.

Q If I understand it, then, the branch manager of each branch would be reporting to one of the five members of the executive committee, to one or another of them, with respect to the different activities.

A In actual practice, I think you could say that is correct, Mr. Paul. Additionally, I think, however, it would be fair to say that essentially overall they have a sense of reporting to me as the firm managing partner. On the other hand, they would be referred obviously to another member of the executive committee if it is a matter under his cognizance.

Q With respect to your recruiting and training, which of the five partners on the executive committee have jurisdiction?

A I would say the development of criteria for recruitment and screening and the development of content of our training program comes largely under my jurisdiction in all these areas. However, I consult with my fellow members of the executive committee in matters in which they are more versed than I.

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By Mr. Paul:

Q As to the branches, we have reviewed that. With respect to your hiring policies and the investigation of the individuals hired to serve as registered representatives, could you briefly describe to us the policies which you use and the standards which you use?

A Yes, sir. To the maximum extent that it is practical -- let me first say the source of candidates for employment either as qualified salesmen when they come to us or trainee salesmen to go through our training program, is varied. I would say the most important source is referrals from people within the organization or from persons outside the organization in whom the firm has confidence. There have in some instances been deliberate recruitment programs on the part of our firm.

There are any number, and there have been over the past several years, of persons who for reasons of their own come in to see us and seek employment in this category. If a person has a background and is experienced and is registered and has a clear record with some other organization, especially if it is a member firm of the New York Stock Exchange, if he passes muster in at least two interviews, if his record and previous employment checks out correctly, he is subjected to no formal screening technique. If he has not been in this business before, or if his experience is modest and he seeks therefore to come in as a trainee, the

great majority of such candidates are put through one of two series of screening and aptitude tests.

We have one center which is handled in New York for offices basically in the Midwest and Southwest and Northeast; another in Los Angeles for which we handle it for the important part of the Los Angeles chain. In the case of the Los Angeles group, these screening tests are administered by Psychological Services, Incorporated, and scored by them and appraised by them.

Parenthetically I might note they have been doing this for some ten to twelve years for quite a few member firms in Los Angeles, so it is possible to evaluate the raw score in terms of past experience of the persons in the industry.

If you would like, I can tell you what the basic content of those tests is. It includes screening (all Psychological Services test), verbal comprehension, numerical ability, visual speed and accuracy, verbal reasoning, word fluency. Aptitude: Bruce sales comprehension, Kuder preference record, Guilford-Zimmerman survey of opinion (personality). Minnesota personality inventory. Alport-Vernon-Lindsay motivation.

All of the candidates for training who have not demonstrated an acceptable record in the securities industry before coming to us with few exceptions are required to take

these examinations.

Q What are you looking for through these examinations?

A We are looking, I think, for two things. One is that degree of stability, emotional stability, emotional maturity, if you will, which we think is fundamental and also some achievement in the actual technical skills, the use of language, the ability to reason arithmetically correctly. Other personality traits which when measured against the profile of people who are successful in this business gives you some assurance that the person is proper raw material.

Q The experience of these testing organizations over a period of years with these tests suggested that you can determine a likelihood of emotional stability through them?

A We don't place a 100 per cent reliance on them, no. We use them as important confirmation of our own evaluation of the man. I will say this, that since we have been using them, I think our attrition rate has been lower than it was before we did.

Q Now you say when someone comes in who has a degree of experience in the securities business, you don't require this type of testing and screening?

A No, sir.

Q Do you have any rules of thumb of standards of length of experience, whether the experience must be with stock exchange firms or other firms, how old a person must be

when you are employing persons that you are not giving this testing to.

A I would say we attach much greater weight to a prior successful experience with a stock exchange member firm than we do with similar experience with a non-member firm for the reason that he has had exposure to a broader spectrum of business with the stock exchange member firm in most cases.

Q But you might or might not give the same screening to a candidate from a non-member firm?

A That is right.

Q Do you have any minimum educational requirements?

A Not that we could state for you, sir, in any kind of formula. We certainly prefer to see some concentration in a man's academic life in subjects which are related to this field. I could not state a straightaway minimum educational standard for you.

Q This is all with respect to training. What sort of investigation do you use with respect to the two categories beyond the testing? I understand, of course, that they are subject to investigation by the stock exchange itself. I wondered what independent investigation you made.

A Without exception we check certainly the last employer. If that period of employment seems to be short or is in a field which is totally remote, we may go to a prime employer to get an even better reading of the way the person

fit in the organization, the competency indicated, the reliability which the employer could place upon him and some assessment of the way he measured up to his responsibilities. If a man had been with his prior employer three months, we would go back of that three months period. If he had been there five years, we would content ourselves with one reference as far as the previous employment is concerned.

Q Do you have references other than employment references?

A It used to be that we checked character references. Without trying to be cynical about it, we came to the conclusion that nobody gives a character reference except somebody who is going to speak well of him. We have reservations how important character references are unless it is somebody we happen to know.

Q Do you look outside of given references? Do you go to schools?

A We have on many occasions checked school records, yes, sir. There again especially if a person's business career has been rather short since his graduation from school.

Additionally, anybody that we employ is at the risk, if you will, since it is their option unless we ask it, of a thorough investigation by the bonding company.

Q Do you rely to some extent on the results of the

bondin company and the New York Stock Exchange investigation?

A I would say we view the favorable reaction or favorable results of the New York Stock Exchange examination as very important confirmation in terms of character and past record of anybody that we submit for registration. We don't rely on it in the sense that we abdicate our own responsibilities, but we do think that this is a terribly important confirmation, because we know of the caution and care they exercise.

Q This is a confirmation of an investigation which has been made.

A That is correct. They would not have made it until we proposed a person for registration.

Q Now, if we could go to your training procedures you have supplied us with a volume covering your sales training program. I take it that this program falls into two parts, is that correct, sir, the formal training program and the pre-training program?

A That is right, sir.

Q Could you tell us first about the pre-training program, how long it is, and what it consists of?

A Yes, sir. We endeavor to recruit and have at work in his office of eventual assignment any person who is going to join our training program for two months at least prior to the start of his particular formalized training class.

During that period the prospective trainee is expected to take and pass the New York Institute of Finance course, work of the Stock Exchange and brokerage office procedure. This is designed to give him a beginning working knowledge of how a brokerage office operates, what the basic operations of the exchanges are, how transactions are handled, the effect of federal credit regulations and so forth. It also gives him some insight into what the relationship is as he observes and sees activities within the office between client and between registered representative. He is exposed to the administrative operations of the office, how business is handled over the wire, the kind of publications there are, what the tools of the trade are. So at least he has learned a bit of the language of the business before he reports to us for formal training in New York.

That constitutes briefly -- I might say also that each of our branches has a complete bibliography of additional information, not all of which is mandatory, but titles of various publications which are good for the man to have exposure to. So when he arrives at our training school in New York City we are able to presuppose some minimum level of comprehension as to what the language of the business is, how a branch operates, what its mission in life is, and the like of that.

Q Would you say that as to this pre-formal training

period, this runs from two months to three months?

A It will run from 8 to 11 weeks, sir, yes.

Q Would a substantial part of the time be spent in the studying of the institute courses, or would a very substantial part be spent in observation, or would some part be spent in actual performing of work functions, on the job training sort of function?

A I would say it is a combination of all three. I don't know what I can weight it for you. Certainly it would not take more than half of his time to take the correspondence course. On the other hand, we endeavor when he is taking that part of the course which has to do with the handling of orders to let him spend part of his day in the order department of a branch and see in real life what these pieces of paper are, and how they are processed. By the same token as he is learning about the handling of securities, he is spending time in the branch office cashier cage, seeing the precautions exercised, the diligence used in accepting certificates, the receipt and payment of customers' funds. I could not break it down in percentages for you.

Q When he has finished that program, he comes, I take it, into a formal program. Could you describe that formal program for us in terms of weeks, classes and so forth?

A Yes, sir. The formal program is conducted in New York. The firm has reliance on professors from New York

University in various specialized fields. Various agencies within the industry in New York such as representatives of the odd lot firm, specialists, members of the Exchange, the Exchange staff, and also heavy reliance upon our own competent senior people, partners, department heads, and division managers.

I would like if I may to read into the record the basic subcaptions of the course unless you would prefer to save time.

Q No, I would like to ask you this. You have described in your outline four broad areas. Could you tell us what the broad areas are?

A I don't think I understand the question, Mr. Paul.

Q Does the formal program roughly divide into fundamentals of finance, the operations of the securities business, the rules and regulations of the firm, and the regulatory agencies and development of personal and sales skills?

A Those are all parts of the training course, yes, sir.

Q How long does this formal program last?

A 15 weeks, sir.

Q How many classes are covered in that 16 week period?

A There are about 425 to 430 class hours over and above home assignment work.

Q How long are the classes?

A They are roughly nine to five with lunch time break.

Q So that someone who is studying during this 15 week period is putting in roughly eight hours a day in study plus home work besides.

A I would say it is roughly seven hours a day of lectures, study, observation, departmental assignment and so forth. With home work to boot. There are reading assignments outside the class room sessions.

Q Could you describe some of the courses and the periods they take for us? Corporate finance, for example. How long do you spend on that?

A There are 18 classroom hours devoted to corporate finance. That is one of the courses which is taught by a professor from New York University, I believe. If I may read, sir, from the outline, it is a study of the principal forms of business organizations, their formation, financing, liabilities owners, tax aspects. The owner's role in the corporate structure, comparative study of the instruments employed in raising equity capital and debt financing with emphasis on long term obligations. Sources of funds available to the corporation, especially long term sources. This is just a birds-eye of the content of that course.

Q Did you also give a course in the analysis of financial statements?

A Yes, that is a course of 12 classroom hours, treating with the nature of financial statements, their uses

and limitations. Analysis of balance sheets, profit and loss statements. Sources and uses of funds analyses. Ratio analysis, including balance sheet ratios and profit and loss ratios, per share figures, trend analysis, analysis of industry statements and so forth.

Q Do you also give courses in reading improvement and public speaking?

A Yes, sir, we do.

Q Is this part of the development of personal and sales skills?

A Yes. The reading course stems from what I have always heard a common complaint in the business, that I can't get my reading done. The aggregate of financial publications, daily newspapers, annual reports, proxy statements, prospectuses et al, constitutes a formidable amount of reading which a well informed man should address himself to. We got rather tired of hearing people complain that they could not keep up with it and decided to attack the problem.

In our training program we have a reading improvement course. We have had some gratifying results in terms of improved reading speed along with improved comprehension. We think it has been a useful addition to the personal skills of our trainees.

Q Is this taught by someone from your firm?

A This is taught by our training director. We use

the Harvard reading improvement course, which is a cinematic type of presentation.

Q I gather you also have training involving observation in the course in connection with the exchanges.

A Yes, sir. They visit the various exchanges. They visit a typical odd lot house to get a complete comprehension of the handling of odd lots. They visit the specialist posts and observe the specialist system.

Q Do you also have courses in investment programming?

A Yes, we do, sir. This also is conducted by an outside professor. I might say that in this respect in many of these areas we have reliance on outside help not because we don't have the talent within our organization, but we realize that teaching is an art in itself. We have many people who can do that job, but that does not mean necessarily you can teach. So that we have in certain areas decided to rely on professional pedagogs. The investment programming course which is 24 classroom hours, covers the sources of economic and statistical data, nature of capital interest, the problems of investment, the nature of financial and interest rate risk, purchasing power risk, structure of yield, analysis of individual investment requirements, constructing a security portfolio, its management, investment policies of banks, insurance companies and investment companies.

Q Does this cover your training in research or is that

a separate operation?

A The research training is carried along with this in the respect that presentations are made by analysts from the various industries within our own research department on those techniques of security analysis within a given industry. There are things which the railroad analyst is concerned about and looks for which are peculiar to railroad securities as opposed to oil securities or utilities and so forth. So each of the various analysts will appear before our trainees and review the techniques used within his particular industry, the significance of the results of research and so forth.

Q So your research program is more related to specific industries?

A That is right, sir.

Q You also have a course in sales psychology and techniques?

A Yes, we do. We place a fair bit of emphasis on this because included in this area of our training is a pretty comprehensive treatment of what the function of an RR is in its broadest implications, what his responsibilities are in terms of keeping informed, how he should conduct himself, very candidly how he can learn to cope with people, to understand the points they may raise in a given situation, how to deal with them courteously and effectively.

Q The course covers the functions of a salesman, I

take it.

A Yes, sir.

Q I note from your outline that your first heading is serving customer's best interests. Is this your thrust as related to professionalism in the industry?

A I would say that is my thrust with respect to the twin brother. I have been asked to characterize what I think things are that a firm should stand for. I name them in this sequence deliberately. Integrity, and then professional competence. I say serving the customer's best interests is a question of just plain human integrity. Professionalism gets into the knowledgeability, the acquisition of skills and the proper application of the skills.

Q You say professional integrity and you distinguish professional competence. In your use of the word "professional" are you confining it to the area of competence or do you as I believe many witnesses have embraced within the term professional, the idea or ideas of ethics and integrity?

A I have no quarrel with their doing so, sir. I think as a practical matter a person can be well versed and skilled in the fields of finance and yet not be a person of integrity. A person can be of complete integrity and also completely incompetent. So I suggest that there is room for both characterizations.

The Presiding Officer: Are you saying that your

concept of integrity involves serving the customer's best interests first?

Witness Van Tuyl: Yes, sir.

The Presiding Officer: So you would call that an important concept of your firm?

Witness Van Tuyl: I think it is the single most important concept.

The Presiding Officer: Do you feel that is an existing fact in your firm and in the industry or do you think that is aspiration of the industry?

Witness Van Tuyl: I think like all human aspirations, it is one which we can march close to.

The Presiding Officer: Like the Golden Rule.

Witness Van Tuyl: Precisely.

By Mr. Paul:

Q In the functions of salesmen, you have indicated also it embraced serving self interest and the working tools, techniques of the person who is selling the securities, is this correct?

A Is that what?

Q Is this correct?

A Yes, sir.

Q You also have a course on the NASD and New York Stock Exchange examinations, 15 hours, which reviews examination material, SEC regulations, constitution and rules

of the New York Stock Exchange. I take it this is not the total extent to which the regulatory aspects of the industry are taught?

A No, sir. Instead of having specified, and identified sections having to do with training and education and federal security regulations as a single subject by itself, we have tried in the various things that we do bring up, such as for instance lectures on investment banking and syndicates to bring into the presentation there as a part of the whole picture the applicability of the statutes rather than treating them by themselves. We try to relate them, as I say, to the whole body of material in one element of the business.

Q Could you give us a rough idea, and it will only be very rough, I understand, of the total part that those aspects take in your total training program? Would it be a quarter?

A I don't think it would be a quarter.

Q A tenth?

A I thought out of the roughly 420 classroom hours it might be fair to assume that between 20 and 30 hours concern themselves with this area.

Q As your trainees are engaged in these courses, do they take examinations periodically given by your company?

A Yes, they do, especially with reference to the outside instructors that we have. Each of these courses has an examination which must be successfully passed.

Q Are there any people who flunk out?

A We have had two men whom we have terminated prior to the completion of their training in the training classes that we have had to date.

Q How long is the formal training been going on?

A Since 1960.

Q When do your trainees take the NASD exam?

A I believe in the case of the NASD they take it at the end of their fifth month of training, including the roughly 8 to 11 weeks they had in the pre-indoctrinational training and the period they spend in the classroom training.

Q This runs from eight to eleven weeks and then 15 so that would be 26 weeks or six months. So they take it about a month before the end of the course.

A Precisely.

Q When do they take the New York Stock Exchange examination?

A At the completion of their training.

Q Is there further training which you might describe as post-graduate training?

A Yes. In the respect that our managers are enjoined to pay particular attention to the day by day work habits, correspondence, productivity, qualitatively of what our trainees achieve when they get back to their branches. They are not tossed in with the old pro and considered to be

one of them. On the contrary, special attention is dedicated to the kind of work he does, the kind of things he represents, the kind of statements his customers have at the month end, and so forth. I believe also in many of our offices where there is a significant number of younger men in the business special sales meetings are also held on a weekly basis for the trainees. This would not be the case where you have one trainee in 15 or 18 man offices.

Q They are now selling.

A They are not registered. Let us not call them trainees. Let us call them the most recent graduates.

Q In fact, your training program runs the exact span of time which is set forth in the stock exchange rules as the minimum length of time.

A It is, sir.

Q How many trainees do you train in a term or a year?

A We try to operate three classes a year, and they are geared to hold 25 or 30 men. There are 27 in the present class.

Q So you may have between 90 and 100 persons a year?

A I would prefer to say 75 to 90.

Q Do you have any persons who are coming to you now as trainees who do not take this formal course?

A We have some in branch training around the system. We are doing our best to diminish, decrease it and hope

eventually eliminate it. We have had some cases where persons who struck us as being completely outstanding candidates because of educational attainments or industry, find it difficult if not impossible for practical personal family reasons to pull themselves away from Minneapolis, Minnesota, and come to New York for 15 or 16 weeks. In those cases we subject them to complete battery of courses available through the Institute of Finance and we also demand closer adherence to the bibliography material which the firm sent out to the branches and more demanding on the provision of time of the manager to work with these men. Our whole emphasis is to diminish in branch training as compared to home office training.

Q You hope except for extremely unusual cases of family problems to have all of your persons take the formal training program.

A That is our objective.

Q How many of your total sales force at present would have gone through this formal training program.

A We only started in 1960, Mr. Paul. To date there are about 75 graduates.

Q Would you say that with respect to those taking the in branch training, their training resembles the present training recommended as such by the New York Stock Exchange?

A As a matter of fact, with the availability of the study guide and the trainer's manual, we shall see to it

that our in branch training conforms as closely as we can and certainly covers the ground covered by that training manual.

Q Didn't your firm have something to do with the training manual?

A Yes, sir, our personnel director worked with the Stock Exchange in the development of both. Mr. Funstan was kind enough to express his appreciation for the contribution he made.

The Presiding Officer: How long has that been in effect?

Witness Van Tuyl: I believe Mr. Funstan sent me a courtesy copy with his letter of thanks dated some time late February or early March. It was labeled advance copy. So the material has been available to the member firms since some time in March of this year.

By Mr. Paul:

Q Now I see from your sales training program in several spots, starting with the history of your firm, the reference to the firm that research built and partnership emphasis on research and research emphasis in various parts of your sales training program. I would like to ask you a little bit about the organization and operations of your research department. Could you give us an idea of its organization and size?

A Mr. Paul, if I may, I would like to defer to my

partner, Mr. Safanie, who happens to be the man who founded our research department in 1926.

Mr. Paul: I would be happy to have Mr. Safanie answer the questions. Could you tell us, sir, how the department is organized?

Witness Safanie: The department is headed by one of the members of the executive committee to which Mr. Van Tuyl referred, Mr. Walter Maynard. He has that department as well as the investment advisory department. In turn, another partner by the name of LaTourette is directly in charge of the operations of the research department as distinguished from the investments advisory department, reporting through Maynard. I cannot tell you precisely, Mr. Van Tuyl can better than I, the exact number of senior security analysts we have but there are quite a good many for the size of our business. They are supported by junior analysts and clerks. I would guess the entire organization consists of at least 50 people, and probably another 12 or 15 in the investment advisory department, who work pretty closely with the research department.

In addition to that we have representation on the research department in strategic important local financial areas such as our Chicago office and Los Angeles, primarily for the local situations on which they would be better qualified to investigate than the New York office and do it more promptly.

I came to the firm -- do you want me to elaborate on my philosophy and the reason for the research department?

Mr. Paul: Yes.

Witness Safanie: I came with the firm in January 1926, 37 years ago, I believe out of an entirely different field. As a matter of fact, I was with the Treasury Department at the time in charge of the investigation of the United States Steel Corporation with respect to its excess profits taxes for the First World War period. I was invited by Mr. Shearson, who was the then senior partner and founder of the firm, to come and have a chat with him, he having heard of me through his former associates in the United States Steel Corporation, of which he was one of the founders, and its first comptroller.

I had no background or experience or knowledge of securities whatever from the standpoint of a securities firm. However, I had considerable amount of experience that I believe in his judgment at least qualified me for objective examination of corporations from the point of view of gaining some knowledge on which you could base recommendations and give ideas to clients. He had the vision and foresight to see a long time ago that the time would come as it indeed had come when the matter of research and knowledge of securities would become an important thing. It was not then. I was not a very popular person as head of the research

department in those early years. However, the department grew in size and stature. Its roots are very deep. We got an early start in the field. It enabled us to establish many relationships and contacts with industry in the early days not only on the basis of drawing information from them but also being sufficiently competent and qualified so that managements sought ideas from us in exchange which is the most satisfactory way to learn what is going on where you can make an equivalent contribution in addition to picking somebody else's brains.

We have continued throughout this period to devote ourselves to focusing our business objectives, our ability to build our business, on this research philosophy. We did it for several reasons. One obviously I suppose I had a prejudiced point of view about the need of knowledge of securities.

Secondly we came to the determination along time ago that the opportunity for growth in this business was limited to a few areas in which you might be able to excel some other firm or competitor. We realized, or at least I felt at the time that in the field of executing an order we might do a fraction better than the next fellow today or worse than he tomorrow.

This is not a basis on which to compete. The area is limited as to how successful you can be or how much better

you can be. In the field of having adequate financial resources this is pretty well prescribed nowadays, thank goodness, by the Exchange and by the Commission. So we cannot say that our capital is adequate and someone else's is inadequate.

As to integrity, obviously we felt everybody should be on an equal basis. It narrowed down to the one area where you had, you might say, to use the vulgar term I like to describe it, a fighting chance to be better than your competitor. That was in the field of research, in the field of producing ideas that will help clients to obtain whatever their objectives might be.

This philosophy has prevailed throughout the firm. It is on that basis that our business has grown and was built up, and it has since been conducted, as I say, not delegated to some junior down the line, but always to seniors. I believe it is perhaps the only firm, certainly the only firm of its size, in which two of their senior partners devote a major part of their time to the field of research and investment advisory work, which is related.

Mr. Paul: So you would say, I take it, sir, that research as a concept and in operation has been a keynote of the growth of your firm?

Witness Safanie: I am sorry, I didn't hear the last.

Mr. Paul: It has been a keynote of the growth of

your firm.

Witness Safanie: Yes.

Mr. Paul: It is also used by you as an affirmative selling point, that is, you encourage your sales personnel to advertise the advantages of your research department, is this correct?

Witness Safanie: Yes, that is correct.

The Presiding Officer: When you refer, Mr. Safanie, to investment advisory activities as related to research, are you there talking about investment counseling in the sense of clients on a fee basis?

Witness Safanie: Yes. It is under the investment advisors act or under the provision of counsellors. We are not supposed to use the term "counsellor". We are registered under the Act, and we charge a fee for the supervision of accounts. We have many accounts which range from insurance companies and labor unions and trusts and so forth on down to businessmen's accounts where capital gain is a primary objective for that kind of operation.

The Presiding Officer: When you refer to your investment advisory activity, you are not merely talking about investment advice incidental to selling of securities. You are talking about a separate service to customers on a fee basis.

Witness Safanie: Yes, sir. As a matter of fact,

clients are not required to transact their orders resulting from a recommendation through our firm. They have the right to do it elsewhere. It is specifically provided.

Mr. Paul: To go back to the organization of your department, sir, I have a chart dated November 1961, which indicates that there are four principal departments or divisions of the department or departments of a division. Securities analysts, portfolio review, library and service staff and trainees. As to the security analysts, there are here listed some 16 senior analysts. Would there be also a number of junior analysts under them?

Witness Safanie: That is my impression, yes.

Mr. Paul: Is that organized by industry so that one analyst specializes in various industries?

Witness Safanie: That is correct. That is the common practice nowadays.

Mr. Paul: You also have a department of portfolio review.

Witness Safanie: Yes.

Mr. Paul: Can you tell me what the operation of that department is?

Witness Safanie: In essence, and I can only give you a rough outline, you understand that I am not active administrative partner -- in essence it is a unit under the supervision or working in coordination with the research

department and the investment advisory department, that takes care of the inquiries which we solicit from our branch offices of reviews of clients' accounts wherever they can be obtained and where the registered representative can obtain them so that we can give advice on the propriety of the makeup of a portfolio. This is solely for the review of portfolios and not individual securities, as distinguished from a portfolio. This is done without a fee.

Mr. Paul: This is without a fee and you offer it as a service to your clients to have their portfolios reviewed on some periodic basis?

Witness Safanie: Yes, sir.

Mr. Paul: And when the local customer, such as Dallas, wants his portfolio reviewed, it is done by this department in the research department?

Witness Safanie: Yes. In order to make as effective as possible portfolio approach or analysis or handling an account, the account is not paying a fee for management, we do an additional thing which may be of interest to you. We make available to our organization quarterly what in effect is a fund of a businessman, a theoretical businessman, that would suggest the composition of securities that we at the time consider to be appropriate for such a person. If you forgive me for taking an additional minute on it, I think you might find it of interest and value.

This was done some 12 years ago in order to get across to our organization those particularly who do not have clients who were clients of the investment advisory department the function which the investment service performs. They in turn could to some degree perform more professionally as investment advisors.

We hit on the idea of publishing regularly or establishing a theoretical fund, a fund which in life did not exist, with \$400,000 of cash available. We said this is going to be a businessman's investment fund. We will show you through the operation of this fund just exactly how we would implement some of the actual ideas of the research department and investment advisory department and reflect them in this fund, and do it so it would not create any possible impression of prejudice or bias in the account it is operated their way.

If today we decide in a committee meeting and we hold committee meetings, investment policy committee meetings, and so forth, that stock A should be sold and B bought or cash retained or what have you, as of the close of the market tomorrow -- we first publish the fact that we made a decision today -- then at the close of the market tomorrow, so there can be no question about the time when the theoretical order was executed, whatever the last price is is assumed to be the price at which this recommendation was effected.

We then further publish a memorandum that it was effective, at what price and how much cash was used, and therefore how a cash balance was either increased or reduced.

In addition to this we charge against the principal of that account the capital gain that would have been payable if it were an individual. We charge it from the principal even though it is deductible from the income tax return or payable out of income as a rule.

We also charge against the fund the theoretical investment advisory fee it would pay if it were a client. We charge this to the principal.

I might add to you that its performance has been excellent. At no time to my knowledge has it had more than 80 per cent of its money in common stock. At no time have there been questionable, risky, hazardous securities beyond those which a businessman would be entitled to take --

The Presiding Officer: Mr. Safanie, are you describing a program for investment advice or what are you describing, what is essentially a promotional tool in selling your invest advisory service?

Witness Safanie: Both. It is done for both purposes. Wherever we can combine two purposes in one, we are happy to do it. It serves as a basis for demonstrating to a potential investment advisory client what our performance might have been through the demonstration of this theoretical

account. More important than that we have used it in recent years to demonstrate to our registered representatives how they might, if they applied good common sense and judgment and used the tools which we make available to them, the ideas we make available, how they might implement these ideas in the accounts over which they have -- which they serve.

The Presiding Officer: At this point we will take a ten minute recess.

(Short recess.)

The Presiding Officer: The hearing will be in order.

Mr. Paul, you may proceed.

Mr. Paul: Mr. Safanie, in connection with your research department, I take it you issue a number of publications of one kind or another.

Witness Safanie: Yes, sir.

Mr. Paul: Among these, I take it, are research bulletins. Could you tell us what the research bulletin is and when it is issued?

Witness Safanie: In essence I don't believe there is any stated period of publication. In essence a research bulletin contains a report or reports on several companies which the research department, if you will, has researched through digging into the facts concerning the company, the industry, its competition, its customers. As usual, and perhaps without exception, I am not too sure about this, but

with very few exceptions in any case after discussion with management and very often also a visit to the company's plants or stores or whatever their properties may be, to get some sense of feel of the facts concerning the company. In summary, I would say a research report is issued as a rule when we find that a certain security of a certain character appears to us to be undervalued in price. The whole effort of research is very largely one of trying to determine whether securities are over priced or underpriced. There is a vast distinction between price and value.

Mr. Paul: Are research bulletins issued with respect to a particular company or an industry?

Witness Safanie: A particular company as a rule. Occasionally we have industry reports where a research report on a company might be preceded by a report on the industry.

Mr. Paul: Are there particular types of companies that you cover or don't cover in these research bulletins? Do you cover speculative issues?

Witness Safanie: I think we would cover the range of companies that have attributes that we are looking for, whether it be an income security on occasion, one that will assure the highest degree of stability of income return, one with some possible assurance of increasing income over a period of time or growth. These in turn would range in quality all the way from perhaps the highest degree of conservatism

or quality to some degree of speculation, yes. We do not turn our noses up at what might be called commonly a speculative security. Speculations, after all, become investments very often.

Mr. Paul: What is the distribution of these research bulletins?

Witness Safanie: They are quite general. We do not have, I don't believe -- Mr. Van Tuyl might want to comment if I am wrong -- we do not have a general distribution list. The distribution is made through segmented mailing lists that are provided by each of our various offices and in turn for each of the registered representatives for their clients as well as for prospective clients. They furnish these lists and we maintain the addressograph plates. There is no regular mailing unless the customer either requests the publication or a registered representative or man places the name on the list.

The Presiding Officer: Do these go out to Correspondent firms?

Witness Safanie: Yes, sir, they do.

The Presiding Officer: And to selected segments of your customer list?

Witness Safanie: Correct, on a selective basis. We have another publication which perhaps Mr. Paul will come to in time which automatically is sent to every client for

whom we mail a statement at the end of a particular month. That is known as Business and Securities. That is a more general discussion of the business outlook and sometimes the security outlook.

The Presiding Officer: On these research bulletins would a typical bulletin cover one company, or would there be brief paragraphs on several different companies? What would they look like?

Witness Safanie: More often it would cover a minimum of two, sometimes perhaps three. Occasionally one single company.

The Presiding Officer: Are they in printed form or mimeographed form?

Witness Van Tuyl: Multilith.

The Presiding Officer: Is it your practice to advertise as to the availability of new bulletins from time to time?

Witness Safanie: On occasion. I think Mr. Van Tuyl can answer that question better than I.

Witness Van Tuyl: Yes, sir. We maintain around the nation some six or seven regular radio programs and we have a program for advertising in other media such as newspapers. Research bulletins and another one of our series of documents called Special Reports are very frequently the particular item which will bring to the attention of the reader or the

listener inviting him to send in for a copy of the report to get a sample of the firm's research output.

To answer your question, Mr. Paul, earlier, we print about 85,000 copies of each edition of the research bulletin.

The Presiding Officer: So that these are distributed to the groups and the firms that you mentioned. They are also available for distribution to those who might answer these advertisements.

Witness Van Tuyl: That is right.

The Presiding Officer: I assume that then becomes a source of potential new buyers for your firm?

Witness Van Tuyl: That is correct, depending on the locality a respondent to that kind of advertising under the direction of a manager is assigned to a registered representative or in the case of our radio advertising in New York, the firm sends the particular document requested to the respondent and invites the respondent to solicit additional information from us by way of analysis of his portfolio or suggestions for the investment of funds. In New York it is only the person who answers the second solicitation that we give to a manager for assignment as a lead.

Mr. Paul: So in brief, these go throughout your organization, and they also go to a selected portion of your customers and they go to a group of potential customers and

they go to other firms.

Witness Van Tuyl: That is right.

Mr. Paul: I am not sure whether I should address questions along this line to Mr. Safanie or Mr. Van Tuyl. There was a reference to special reports. Mr. Safanie, can you tell me in which way these resemble or differ from the regular research bulletins?

Witness Safanie: I think perhaps Mr. Van Tuyl better take that.

Witness Van Tuyl: A special report will invariably be written on a single company. More often than not it represents at least the first time in a long time that the firm will have expressed itself on the company in question. It may be a security which is less well known. It might be possible, for instance, in the course of three quarters of a page to write an intelligent story on the present status of American Telephone Company. Whereas if we have become interested through research and field examination in a company less well known which we have not discussed before we may find it necessary to spend two, three or four pages of text in getting the complete story across. So a special report is merely a more fullsome treatment usually of a single subject or company and frequently one on which we have not expressed ourselves within the recent past.

By Mr. Paul:

Q Is the distribution of the special reports similar to the distribution of the research bulletin?

A I would say perhaps somewhat less, Mr. Paul.

Q You also have a list of advisory and followup bulletins.

A Yes, sir. That is a publication which as its name suggests is designed merely to bring up to date stories we have issued earlier. There may have been a comment in the research bulletin, for instance, of last October, on the United States Steel Corporation. We might for obvious reasons find it desirable to make a followup comment in the month of May about the United States Steel Corporation. Without the need to recapitulate all that has been said before, a brief squib might be sufficient. It would be a rather short story. The advisory followup bulletin would be the mechanism we would use for that purpose.

Q Do you have advisory and followup bulletins with respect to all of those that you issue research bulletins on?

A Not unless we have something to say, sir. In other words, we don't go to a list of past research publications and say we must say something. On the contrary, our men are aware of the body of ideas we have outstanding, and they are charged with the responsibility of keeping the organization currently informed. This is the medium by which they do it.

Q You also have a publication entitled "Business and Securities". Can you describe that one for me?

A Yes, sir. That is a publication which Mr. Maynard, our partner who directs our research activities, tries on a monthly basis to evaluate the business climate. The activities of government, the international situation as may be appropriate, economic indicators, and relate the aggregate effect of these on the outlook for the securities markets. The format of that publication has changed just as of the last issue. We have expanded it to a larger document. In addition to this it now presents a recapitulation of the ideas presented by the research department in the past month. This publication is enclosed with all statements to clients at the month end. So every client of the firm is apprised at least monthly of the firm's assessment of the investment situation as of the close of the month.

Q Does this publication relate to or give opinions with respect to particular securities, or is it simply general in nature?

A The first part of it, and I would say two thirds of it is general in nature. The latter third may well give thumbnail characterizations of the recommendation made or the findings made with respect to securities discussed in publications during the month.

Q I also find a listing of special edition news

letters.

A This is more of an internal document. It is a news letter. It is a medium by which we circulate around the organization information about securities which we don't think is of such importance as to warrant publication in our more formal publications. It will contain, for instance, the reports of the comments made by a corporate official at an analysts meeting. It will contain the particularized research a man may have done in response to an inquiry he has received from the branch office. Things that he might think of fairly wide interest, but not sufficient importance to warrant inclusion in a major publication.

Q Is the distribution of these special edition news letters exclusively within your office?

A There is no prohibition against mailing them out. I would say the distribution outside the office is relatively small compared to research bulletins and special reports and advisory and followup bulletins.

Q There is also a category unlisted securities reports. Can you describe that for us?

A This is merely a special format. It is not unlike a special report, but obviously it will deal with an unlisted security. It is put on its own letterhead which is distinctive in its makeup so there can be no question that we are dealing with an over the counter security and not a security

listed on the national securities exchanges.

Q When you say its own letterhead, it is the firm letterhead but a different format?

A Yes, that is right, with a distinctive color and format.

Q Are there other publications, either general or internal on a more or less regular basis which your research department promulgates?

A There is one very important internal publication which stems from the research department, and that is what we refer to as our master lists. Master lists are a catalog, if you will, of the securities which we are keeping under constant surveillance in which is presented the firm's current opinion upon issuance as to whether we recommend it for purchase at the particular time, or whether it is worth continuing to hold in a portfolio. It is classified both alphabetically and industry and pertinent current statistical data is provided. If between monthly issuances of the list information comes to light or developments take place that cause us to change our opinion in evaluating the security, a wire advice is given to the organization which might read, "The ABC common stock is being changed from a buy to a hold rating". Or "It is being removed from the list. This is our way of focusing simply the attention of the organization on these securities which represent the current recommendation

of the firm's research department.

Q The master list, as I understand it, is published monthly.

A It is published monthly and altered and changed day by day as circumstances warrant.

Q It is updated monthly but amended by wire to your offices in the interim.

A Precisely.

The Presiding Officer: Mr. Van Tuyl, the other day mention was made of over the counter securities. Mr. Bache expressed the view that it would be desirable if over the counter securities had available I think he said semiannual earnings in the same manner as listed securities. Do you have any comment on the desirability of information as to over the counter securities as compared to the listed securities?

Witness Van Tuyl: We have some very strong convictions on it, Mr. Presiding Officer. We would be glad to comment in formally. We have a statement we will leave with you which summarizes our firm's views in the area which I am testifying on. This is one subject which we have mentioned in our memorandum. We certainly agree with Mr. Bache that public disclosure of current operating information on the part of unlisted companies is a highly necessary and desirable thing. I am not sure about fixing the period at twice a year. Perhaps it should be quarterly as in the case with listed

companies. Certainly when a company becomes publicly held at some point in time the public is entitled to current information with respect to its operations.

The Presiding Officer: Thank you.

By Mr. Paul:

Q With respect to your master list -- strike that. I would like to get into the master list in some more detail. Are there other special lists of special types that you distribute from time to time?

A We have two or three master lists in that group. There is a second masterlist which represents situations that have come to the attention of responsible members of the firm on which some clarifying statement has been made. We also operate a short term trading list. These are situations where the individual who is interested in short term trading can get the benefit of our ideas on opportunities that may exist in that area. They are suggestions that arise from technical considerations, market considerations, as well as considerations of value.

Q I have in your folder a list, not for distribution, memo to all registered representatives, dated November 1961, dealing with the electronic industry at that time and noting that it is for use only with customer's understanding of its goals. Is that one of your short term trading lists?

A I missed one key word there, please.

The Presiding Officer. Will the reporter read his question?

(Question read by the reporter.)

pkfls

pk 1  
flg bow  
Papich  
5/16/62  
Spec.Study  
SEC

The Presiding Officer: Is that a quotation,  
Mr. Paul?

Mr. Paul: This is a quotation. "Is for us only  
with customer's understanding its goals."

There are other parts. It is not a part of the  
master list but relates to intermediate capital gains.

Witness Van Tuyl: This was probably a one-time  
publication a series of widespread inquiries on the  
Electronics stocks where we tried to put the entire area  
in perspective.

By Mr. Paul:

Q But you have a short-term trading list which  
deals with technical aspects, trading aspects, and so  
forth?

A That is right.

Q Now, as to your master list, this list, I take  
it, indicates the current thinking of your research depart-  
ment at the time of its issuance as to whether the list had  
securities, that is, the securities listed in the list,  
should be both, held or sold; is this correct?

A The list only includes those which are rated as  
a buy or a hold. If we think that a security which is  
in a hold position is one which should be sold, we merely  
advise that it is being removed from the list.

The significance of that advice is well-known to

pk 2

the organization.

Q On the basis of a wire amendment correcting this list?

A That is right.

Q You notify the offices that a stock has been removed from this list and this constitutes the research department's opinion that the security should be sold?

A That is right.

Q Is this master list a major tool of your supervisory function?

A It is a major tool for us by the salesman. It certainly presents a master criterion by which , or the extent to which they will follow and the firms recommendations could be measured.

To that extent the manager could use it as a test and use it in the exercise of his supervisory responsibility.

Q What is the firm policy with respect to salesmen recommending either a purchase or a sale of a security which is not contained in this list?

A This is a question not so simple to answer as it is to ask.

We have no outright prohibition which has the effect of forbidding a salesman from soliciting an order of purchase of securities not rated as a buy on the firm's

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master list or for that matter, not having been commented on affirmatively by the firm.

The analysis of security values and their relationship to price sadly enough remains an art and not a science.

We have made our share of mistakes in our New York research department. We overlooked many situations. There have been others brighter than we who noticed them. What we have endeavored to do is by persuasion and by example, and with the utmost emphasis that we can bring to bear to get our organization to follow the lead of a firm and confine themselves as largely as is practical to the solicitation of orders and securities recommended by the firm.

To give this perhaps a little more force and effect, we have in recent months spelled out a little bit further the strength of conviction we have along these lines.

Our organization, for instance, is on notice that in the event the purchase by a client of a security not recommended by some agency of the firm results in the expression of dissatisfaction by the client, this can be the cause of disciplinary action up to and including termination by the firm.

The Presiding Officer: Why would it be so hard to have a rule that a representative could not solicit

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orders for anything that was not on the approved list?

Witness Van Tuyl: I think it would mean arrogating to ourselves, Mr. Presiding Officer, a sense of all wisdom that we don't think we have.

We have seen too many cases where intelligent perceptive representatives on our staff through what exposure they may have, have gotten a sense of conviction, based on fundamentals, about a security which we had passed by.

Where if we had prohibited their soliciting orders from a client we would have done that client a disservice. I can't tell you how frequently this happens. I know it happens all the time.

So far we have been reluctant to be as arbitrary as to say that unless we say yes, you may not solicit an order for a security.

Mr. Safanie may want to comment on this.

The Presiding Officer: In this sense you sort of let your representatives supplement your research department. You let him be his own research department?

Witness Van Tuyl: That is right. This is not without some kind of follow-up. Our managers are enjoyed, and we can discuss this at some length later, to make any number of reviews of transactions completed with a view to determining the extent to which and the instances in

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which our registered representatives are securing orders in securities not researched or recommended by the firm and to make suitable inquiry at the time it happens.

We research the right obviously to raise any question we choose to as to concentration in a security with which we are not familiar or whose merits are not known to us.

But we have not seen fit to establish an outright prohibition which forces a person to confine his activities solely to that group of securities on which we are commenting.

By Mr. Paul:

Q If I understand your policy, your policy is that a salesman may solicit the sale of a security which is not on this list, and if it results in customer complaint he may then be held responsible; is that correct?

A That is correct. May I add just to give point to this?

In the New York City area in 1961, we asked for and received the resignations of three salesmen who consistently were loners, if you will, in the sense that it seemed a great majority of their business was in securities not recommended by the firm.

This we felt was a deviation entirely too great for us to abide.

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The Presiding Officer: What did you call them, loners?

Witness Van Tuyl: Loners. People who operate of and by themselves. L-o-n-e-r-s. I will try to use more formal English.

By Mr. Paul:

Q How many stocks altogether, or securities altogether, do you list in your monthly list?

A On the master list?

Q Yes.

A I am almost guessing now but I guess around 300, Mr. Paul.

Q Are there types of securities which you do not list on that list? Categories of securities of any kind?

A Certainly the restricted list the SEC puts out on the Canadian stock. Or any other security which has a legal or quasi legal prohibition against solicitation.

Q Do you have any listing of what was referred to this morning as a penny stock?

A It is extremely unlikely that any stock which is in the penny stock category would ever get on that master list. I can't point to a policy which says that one may not be placed on there.

I have never seen one on there nor can I imagine one being there.

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Q How would you define a penny stock? This morning inflation took over and the penny went up to \$2.00.

Witness Safanie: If I could say here, I doubt if you would ever find or find there has ever been on that list a stock selling under five and very few under 10.

I just can't think of any. These lists are reviewed by partners of the firm.

By Mr. Paul:

Q Do you have any policy with respect to Regulation "A" offerings, that is, offerings not registered or not fully registered with a Securities and Exchange but offered under the exemption for offerings of \$300,000 or less?

A We have no prohibition against executing orders in Regulation "A" issuings after they are free to trade, no.

Q In connection with the recommendations by your salesmen, do you think that it is possible or likely that your customers relying on the sales phrase, The House That Research Built, assume that recommendations are backed by the research department?

A I could not blame a client from taking that inference. I have used that in the persuading I have done with the members of the organization to stay close to shore and use our ideas because the clients expect them

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to be our ideas.

Q It is not your firm policy to restrict him to such?

A No. For the reasons we enunciated. We have suggested to him that this has not been a recommendation of my firm. But I believe deeply the following about so and so security.

Q So that a salesman who is recommending a security which is not on your master list is by your policy required to state that it is not?

A Again not required. We are hopeful that they do it. I can't point to a policy directive which requires it and demands it. These are things we have discussed in manager's meetings and sales meetings in branch offices.

Q You have described the master list as one aspect of supervision. I take it that there are many other supervisory methods which you use in connection with your firm's branch office operations.

Could you describe for us the internal controls that branch offices have in connection with supervision of the sales made by their personnel?

A Yes, sir. These happen at various points in time with a view to trying to take preventive action. Every one of our offices, the order clerk or the teletype wire operator has been trained and is instructed to bring

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before transmission to New York to the attention of the manager any order which smacks of the unusual in any respect either in terms of its size, in terms of the nature of the security or whatever his sense of feel developed over a period of time may give him.

This gives the manager a chance to take preventive action if such is called for.

Q This is the wire operator?

A Or order clerk, as the case may be.

Q In a local branch office?

A That is right.

Q And he brings this to the attention of the branch manager and the New York office?

A The branch manager of the branch in question. It is up to him to use his discretion how far he investigates and satisfies himself on its propriety.

The same thing is true in New York or any other point of discussion, if it is a Chicago order or Los Angeles. If the person who is charged with executing the order senses anything unusual about it, either in terms of its size or its price, it will again be brought to someone's attention.

I don't think this happens too frequently except in cases of technical impropriety. In any event, every day prior to the end of the day the manager of a branch

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is given a copy of all the reports of the discussions of orders for his office for that day.

He is required to review those before that day is over. On either the next day or the second day, depending upon mail time, the branch manager is in possession of at least two other documents which are documents for control purposes.

One of these is a listing for each representative in his office of all the transactions on the day in question grouped by client.

This indicates the details of the trade and being grouped by client as it is, gives him a day by day chance to observe the activity in a given client's account, to raise any questions if there is suspected over-activity.

With respect to the entire day's trading of the man by himself to get some sense of feel as to the kinds of securities in which he is dealing.

The other document which comes into the office is a complete bookkeeping run which shows for the day in question all entries in the accounts of the clients of that office for that particular day.

It is more generally used as an accounting document but nonetheless it is an information document available on a daily basis.

Q So on a daily basis the branch manager has reports

11 from his wire operator or order clerk of any particular incident. He also reviews all order discussions at the end of the day.

Then he has a mechanical sheet which permits him to check the activities of each account and each salesman?

A That is right, on a daily basis.

Q Are there reviews on a longer periodic basis?

A Every month the branch manager has sent to his attention a copy of the statements for all the clients in his office.

These statements reflect every bit of accounting activity and trade activity and presents at the conclusion thereof a listing of the securities the client has lodged with us.

We urge most strongly any one area of a manager's responsibility, it is the utmost need for diligent, careful review on a monthly basis of the composition and content of client's accounts as reflected by these statements.

Getting back to some of your other areas of control on a daily basis, over and above the information flowing to a branch manager, there is certain data which flows to us in New York for the entire system.

There is available each and every day a complete transcript of all transactions for employees' account. I might add that employee accounts and partners accounts

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are distinctively codified so that anybody who has an order for a partner or employee knows it immediately and can see to it that at no time does it ever conflict with the handling of a client's order.

Additionally, a complete transcript of employees trades is put before a partner each day. Beyond that a complete takeover of transactions by security system which is placed in the hands of the partner in research and partner on the floor showing the total purchases and sales of the firm on the preceding day by security and listing variously the participation in the purchases and sales by a dozen different offices, the others being grouped as one total.

The Presiding Officer: I take it you are pretty dependent upon electronic machinery in processing for control of your total offices?

Witness Van Tuyl: It is almost indispensable for any kind of day by day control, sir.

The Presiding Officer: How long have you had electronic tie-in and data processing in your office?

Witness Van Tuyl: Since the fall of 1949.

The Presiding Officer: And all of your branch offices are tied into the same system?

Witness Van Tuyl: That is right. The book-keeping for the entire firm is centralized in New York

City.

By Mr. Paul:

Q If I understand it, sir, in your home office in New York there is a daily review of employee accounts, and also has an electronic run by securities which is reviewed both by the Research Department and by the floor department?

A That is correct, sir.

Q What are the particular problems which are intended to be caught by the daily run transactions?

A Over concentration in an issue whether or not recommended by our firm. Certainly concentration of any business done in an issue with which we are not familiar or the merits of which are unknown to us.

It gives our Research Department and our floor people a little sense of feel of the part of the country from which interest is being evidenced.

Q This is over concentration in an issue. Is this subject to review by both research and the floor department?

A That is right.

Q Are they both looking at that?

A Yes. We have had cases where the Research Department made an affirmative report on a given situation and for reasons which we are frequently unable to forecast is particularly attractive to our organization.

They will make it a point to make a little tally

day by day of the volume that a firm is buying in a given situation. They will watch the volume vis-a-vis the price. They said this made good sense at 45 but the stock is now selling at 47 or 48 we would not reach for it.

Take your time. Don't be too active in the security. To avoid in that case over-indulgence in something which we have recommended ourselves.

Q This is for the purposes of keeping your research section up-to-date on price and on its recommendations, I take it?

A On the follow-through on recommendations; that is right.

Q Beyond this, what other types of controls, supervisory controls, do you exercise?

A At least once a year the Research Department and the manager of the branch receives what we call a stock record takeover.

This is a complete transcript of all security positions for all clients and an office grouped by security. It is a report, for instance, which would demonstrate to the manager of our Chicago office that the firm is holding "X" hundred or thousands of shares of the American Telephone Company for the following clients of the Chicago office.

So many shares of Babcock and Wilcox and Chrysler. It is a tool by which we can evaluate on an

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annual basis over-all concentration by issue.

Q What sort of control do you use to insure that the particular recommendations with respect to particular customer's accounts fall within the New York Stock Exchange and in ASD rules as to suitability?

A That is largely a matter, I think, Mr. Paul, first of continuous, consistent training of your RR to dedicate themselves to that concept.

We do not require the retention or the notation in our records, I should say, of a stated categorical investment objective of our clients.

On the contrary, the review we make attempts to seek what does the client have. If any flags wave from that on a monthly basis, we think this is the way you can correct any damage that is being done or change the course of the conduct of the account much more effectively than you can through some simplified and perhaps over simplified statement of objective.

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By Mr. Paul:

Q It is your manager's monthly review of each account statement that you use to rely on for a tool for suitability?

A We have heavy reliance. Over and above the manager's review, it is obviously impossible for the partners in New York to look at every statement every month. Several of us on a spot check ask for a duplicate statement for these men in this particular office or that, to look at them ourselves to get a little sense of feel as to the kind of business a particular man may be doing or a particular office may be doing.

Q Does the monthly statement contain information as to other assets, liabilities or income of the customer?

A No, sir.

Q Is the manager expected to be aware of that with respect to those statements he reviews?

A No. We ask our men to do their best to acquaint themselves with the client's situation. It is not always possible to get this information. Some people consider it to be personal, private. We endeavor to point out that to do a professionally competent job, we need to know the circumstances. It is one thing our men try to find out in the first instance.

Q It is a policy of the firm to attempt to acquire such information?

A We din into our men the importance of knowing your customer, know what his circumstances are.

Q But the information, when acquired, is kept by the registered representative and is not generally reviewed by the branch manager when he reviews the monthly statement?

A That is correct.

Q Are there particular controls which you rely on with respect to such problems as over-trading or churning?

A Again this shows up or can show up on the daily take-off which the manager gets by salesmen of the business done in each account for the day. It can certainly show up at the month-end review of the statement. It does not take too practiced an eye to look at a month-end statement in terms of the size of his debit or credit balance, the number of items in what we call the bring-down, which is the security position and the volume of transactions which stand out in the body of the statement. It is almost a sight calculation. The old data processing machine can do it pretty quickly for you.

For the sake of argument, if at the end of the month a man has two securities on deposit with our firm and has a debit balance of \$6,000, which was \$5,000 the month before, and had 35 trades, you don't have to be a genius to wonder what is going on here. I am obviously citing an extreme. I can assure you it is a hypothetical case.

Nonetheless that is the kind of thing which a quick review of the statement makes readily apparent.

Q There is a data processing machine which you indicated by your finger was your head?

A That is right.

The Presiding Officer: Mr. Van Tuyl, with reference to the research bulletins and advisory follow-up bulletin that you described before, are they essentially factual and descriptive in nature, or do they tend to be advisory in nature?

A They are both. I think they can best be characterized by saying that they present the findings of fact which must be firsthand and must be facts which our analyst is prepared to prove are facts and that have been derived from proper sources. There must thereafter be some reasoned conclusions and final recommendations.

We publish very little from our research department with respect to a given issue that doesn't, as we say, come to the point and suggest what we think the investor should do based on the facts and conclusions we have reached.

The Presiding Officer: Do they contain advice to buy or sell as you might have concluded from your research?

Witness Van Tuyl: The semantics of the industry are such that you will wind up by saying that this is a security which is attractive for intermediate term appreciation,

or for those who are looking for a conservative investment with a better than average yield, this is recommended. We try to characterize the recommendation in terms of what it is good for or whom it is good for.

The Presiding Officer: Suppose you have an advisory follow-up situation and you begin to take a dimmer view of the security than perhaps you did in the original bulletin, what is the semantics of the situation there?

Witness Van Tuyl: There would probably be some indication that earnings are not living up to expectations or projections that had been made. There might be some reaffirmation of what continues to be good and a final conclusion that prospects over the near term don't look particularly attractive.

The Presiding Officer: You might say unattractive?

Witness Van Tuyl: You might say unattractive, precisely.

By Mr. Paul:

Q Did I understand you to say, sir, that your master list has a method of classification of different bases of the different types of portfolios for which the different securities listed might be appropriate?

A We publish at the end of the master list tabulation, I believe, three or four different sample portfolios, saying, for instance, "As of this month end if you are looking for a

\$25,000 portfolio for high yield, here is the suggestion of four or five securities to compose such a portfolio. If you want a growth type portfolio, here is the selection." These are suggestive. Trying to do, in effect, the salesman's job for him in some areas.

Q But the list generally simply lists the company, industry and the recommendation?

A That is correct, sir.

Mr. Paul: Mr. Presiding Officer, at this point we would like to ask the Shearson, Hammell witnesses some questions relating to certain activities in their California offices in 1960 and 1961. I am going to ask that Mr. Rothberg, of the study staff, do the questioning.

By Mr. Rothberg:

Q Mr. Dunbar, would you please state your general responsibilities and activities in connection with your employment with Shearson, Hammell?

A My general responsibilities and activities, I am designated as senior partner on the West Coast in charge of the West Coast offices. I check with New York -- I go to New York every other month -- and advise with them on various problems and they advise with me on various problems. I do a general supervisory operation primarily through the managers.

In addition to this, I do have a large retail clientele of my own.

Q You then report to no one on the West Coast?

A That is correct.

Q Can you tell us what office, if any, you work out of on the West Coast?

A I am located in the Los Angeles office at the present time.

Q Can you just state briefly what the nature of your employment has been with Shearson, Hammell since you first came there?

A I sold them my business in 1949 and became associated with them in the Beverly Hills office in 1951. I went to New York in charge of the business promotion department, which I guess you can characterize in other language as the sales department, and supervised the training activities. In 1954 I returned to California as registered representative.

Approximately 1956 I became a general partner of the firm.

Mr. Rothberg: Mr. Teweles, could you briefly describe what your responsibilities and activities, in connection with your employment by Shearson, Hammell, are?

Witness Teweles: Basically I act as manager of our Los Angeles office.

Mr. Rothberg: How long have you been employed by Shearson, Hammell?

Witness Teweles: Four years.

Mr. Rothberg: Could you just briefly trace your responsibilities and your activities in the last four years?

Witness Teweles: In 1958 I acted as assistant to the partner in our Chicago office; in 1959 I became manager of our office at Los Angeles. In 1960 I became a general partner in charge of our office in Los Angeles.

Mr. Rothberg: Mr. Dunbar, could you describe at this time your connection with a company known as United States Automatic Vending Machine Company, which we will call USAMCO, for short, the initial financing and subsequent public issuance of stock of that company, the history of sale of that company stock, including in general the activities of the Shearson, Hammell salesmen in selling and buying that stock for their customers, generally the financial history of the company, and the nature of the supervisory activities in connection with the sale of that stock?

Witness Dunbar: That is quite a long question. I wish you would break it down a little bit.

The Presiding Officer: Perhaps the reporter can re-read the question and then, if you would like, to have it broken down, Mr. Dunbar.

Witness Dunbar: Mr. Presiding Officer, I would like to have it broken down into a few sections because I doubt if I can remember each one of those and get them all in.

Mr. Rothberg: Perhaps you can refer first to the

initial financing of the company's common stock.

Witness Dunbar: I believe the initial financing of the company's common stock was 10,000 shares of organization stock bought by two gentlemen, 5,000 shares apiece. Subsequently, in the common stock there was an offering of 290 shares of stock by the company under Regulation A.

The Presiding Officer: What was the date of this, Mr. Dunbar?

Witness Dunbar: November 8.

Mr. Rothberg: Of what year?

Witness Dunbar: 1960.

By Mr. Rothberg:

Q What was your connection with the company?

A I became a director of the company.

Q When did you become a director?

A I believe around July or August, 1960.

Q Was that prior to the public offering of the company's common stock?

A Yes, sir.

Q Were you one of the original organizers or promoters of the company?

A No, sir.

Q Would you describe briefly the circumstances leading to your directorship?

A My directorship? The organizers of the company

asked me if I would serve along with them as a director.

Q Who were the organizers of the company?

A Mr. Richard Stevens of the company, Mr. Thomas Foye.

The Presiding Officer: If I may interrupt here, I think that the purpose of Mr. Rothberg's question might have been in a broad form, to give you an opportunity to state broadly the history of this transaction, and when I said you can have the question broken down if you wanted to, I did not mean to deprive you of the opportunity to describe the transaction in your own words, if you would like to do that. By the transaction, I mean generally offering the scope of the history, of your knowledge, of the financing and your participation and Shearson, Hammell participation.

If you would like to make a general statement, I don't want to deprive you of that opportunity.

Witness Dunbar: Thank you. I would be glad to do it. I think whatever is easier for Mr. Rothberg. Would you rather me describe it or ask questions?

Mr. Rothberg: Perhaps you can describe it in your own words.

Witness Dunbar: You asked about the common stock, and I answered.

Originally there were several hundred thousand of debentures sold privately under letter of investment. I believe they were ten-year debentures, 4 per cent coupon, not

convertible into common stock for one year and then convertible into the stock at one dollar a share. No interest for two years, no sinking fund for three years.

Mr. Rothberg: Can you continue and just generally describe the activities of Shearson, Hammell after the company offered the stock to the public?

Witness Dunbar: Shearson, Hammell and Company, after the company had offered the stock to the public, I imagine because I was a director of the company, we received a great many inquiries. At that time the vending industry was discussed in practically every magazine, every newspaper.

The vending stocks were having a great ascendancy. This was a company connected with the vending industry. There was a great deal of inquiry all over the country. I believed it would be highly successful. I thought they had a fine idea. I believe some of our salesmen -- it was not generally sold through our sales organization, I do not believe it was even to be classified as generally sold throughout southern California after the original offering. I think it would show that a minority of our salesmen, rather than a majority, sold stock to the customers. Many of them were quite interested in the vending business.

The Presiding Officer: Are you talking about the distribution under Regulation A offering or subsequent trade?

Witness Dunbar: No. Shearson, Hammell had no

part of the distribution of Regulation A. I am talking about after Regulation A was distributed and our subsequent market.

Mr. Rothberg: Do you have any other general comments you would like to make concerning Shearson, Hammell activities after market, or the distribution, or after market trading of the stock?

Witness Dunbar: I would say for an issue of this type there was a rather disproportionately large activity by all dealers. I would say that there was more activity by New York Stock Exchange houses than I would normally see in a deal of this kind. I would say our own volume of transactions would be a little heavier, not too much heavier. But in proportion, our volume of transactions to the volume done on street transactions, where we were primary market, in a situation of this kind it was rather heavy on the street side in the type of houses that bought it on the street side.

The Presiding Officer: What do you mean by street transactions?

Witness Dunbar: Dealings we had with others. We did maintain a market in USAMCO stock. Not only practically all of the small over-the-counter houses but practically all of the New York Stock Exchange firms placed buy and sell orders through us all during the history of this.

The Presiding Officer: You say your street dealings

were proportionately higher?

Witness Dunbar: No, I said they were proportionately higher, in my opinion, than you would normally have in this type of an operation. I don't know whether I made myself clear, but that may clarify it.

Also, we received quite a few inquiries from around the country, which were a little abnormal in relationship to a local California deal. I recall houses in Nashville, in Chicago, Detroit.

The Presiding Officer: You had only 300,000 dollars of stock?

Witness Dunbar: Originally that was it. I am talking about later on. He asked me in the after market.

Mr. Rothberg: At what price was the stock offered to the public?

Witness Dunbar: One dollar a share.

Mr. Rothberg: Could you trace briefly the prices that security sold in subsequent months?

Witness Dunbar: The stock traded from \$3 a share to a level of about \$5 1/2 a share.

The Presiding Officer: What dates are you talking about?

Witness Dunbar: I am talking November 14 to approximately December 1st.

The Presiding Officer: Of what year?

Witness Dunbar: Of 1960. December 1st it stayed from approximately \$6 a share to -- wait a minute, approximately \$6 a share to approximately \$7 a share through December 26, 1960. Then it was approximately \$7 1/2 a share with a drop-down one time to \$6 a share, all the way through, and again it dropped down to \$6 1/2 a share until January 12.

Mr. Rothberg: Mr. Dunbar, what was the stock selling at by the end of January, 1961?

Witness Dunbar: At the end of January, 1961, the stock was selling at \$12 or \$13 a share.

Mr. Rothberg: What was the stock selling at by the end of March, 1961?

Witness Dunbar: March, 1961, it was selling at approximately \$18 a share.

By Mr. Rothberg:

Q \$18 a share?

A Yes.

Q ~~What~~ was the stock selling at by the end of May, 1961?

A End of May, 1961, it was selling at approximately \$17 or \$18 a share.

Q What was it selling at by the end of June?

A End of June it was selling at approximately \$11 a share.

Q Let us get around to August 31. What was it selling

at then?

A August 31, approximately \$9 a share.

Q What was it selling at by the end of September?

A Approximately \$4 1/2 to \$5 a share.

Q What was it selling at by the end of November, 1961?

A Approximately \$3 a share.

Q By the end of December, 1961?

A Approximately a quarter to a half dollar a share.

Q What is the stock selling for now?

A I don't know. I would say the same price approximately.

Q Was Shearson, Hammell making a market in that security starting November 14, 1960, through December 31, 1961?

A Yes, sir.

Q For significant periods of time was Shearson, Hammell the only person who appeared in the sheets of the National Quotation Bureau making a market in that security?

A That I don't know, sir. I know from time to time there were other houses making a market, but I have not checked the sheets. I think it would be a fair assumption, however.

Q Would it refresh your memory that Shearson, Hammell was the only house in the sheets from March 23, 1961, through July 6, 1961?

A As I said before, I did not check the pink sheets,

but I assume it is an accurate statement.

The Presiding Officer: Mr. Dunbar, you mentioned the pink sheets. Was this a western market or is this a national market?

Witness Dunbar: When I say pink sheets, I am referring in general to the National Quotation Bureau sheets. The pink are New York. I forget whether it is white or green for the other one.

The Presiding Officer: Was this a market which from the point of view of your firm was being made in your Los Angeles office as distinguished from your New York office?

Witness Dunbar: That is correct, sir.

By Mr. Rothberg:

Q Can you tell us briefly what the financial condition of the company is at the present time?

A I have only heard. The company at the present time, and I must say it is hearsay, they have sold -- they will be able to pay off their debts and have about \$25,000 cash and \$125,000 in notes and receivables from the liquidation of assets. This I have heard.

Q Have you seen any letters directed to stockholders in March, 1961, which indicated that the company was in the process of liquidation? I mean 1962?

A Yes, sir.

Q And your opinion on the company's affairs is based

in part on that letter, I take it?

A That is correct, sir.

Q Let us go back now to the period prior to November 14, 1960, prior to the offering of the company common stock.

The Presiding Officer: Mr. Rothberg, are you finishing a subject or starting a subject, or what? If you are starting one, I would like to suggest that we recess at this time. If you are finishing one, I will hold the hearing a little longer.

Mr. Rothberg: I think this would be a convenient time for a recess.

The Presiding Officer: The hearing will be in recess until 10:00 a.m. tomorrow morning.

(Whereupon, at 4:35 p.m. hearing in the above-entitled matter was recessed, to reconvene at 10:00 a.m. Thursday, May 17, 1962.)