

# **STOCK EXCHANGE PRACTICES**

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**HEARINGS**  
**BEFORE A**  
**SUBCOMMITTEE OF THE**  
**COMMITTEE ON BANKING AND CURRENCY**  
**UNITED STATES SENATE**  
**SEVENTY-SECOND CONGRESS**  
**SECOND SESSION**

**ON**

## **S. Res. 84 and S. Res. 239**

**RESOLUTIONS TO THOROUGHLY INVESTIGATE PRACTICES**  
**OF STOCK EXCHANGES WITH RESPECT TO THE**  
**BUYING AND SELLING AND THE BORROWING**  
**AND LENDING OF LISTED SECURITIES**  
**THE VALUES OF SUCH SECURITIES**  
**AND THE EFFECTS OF SUCH**  
**PRACTICES**

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### **PART 6**

**(NATIONAL CITY; CONTINUATION OF**  
**RICHARD WHITNEY TESTIMONY)**

**FEBRUARY 21, 22, 23, 24, 27, 28, AND MARCH 1 AND 2, 1933**

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trade of every country, has shrunk tremendously, and the balance of exports has not been sufficient to provide exchange.

Senator FLETCHER. About what price to-day are those bonds?

Mr. TRAIN. Senator, they are selling, my latest recollection of that, though I have not checked in the last few days, was around 21 or 22.

Mr. PECORA. I think that is all of this witness. Now Mr. Chairman, there is a gentleman here whom I have invited, and, whose testimony I would like to have presented at this time as a matter of convenience to him, since he has been in attendance here for two days and can not afford to spare the time. The gentleman is Mr. Edgar Brown. Will you take the stand, Mr. Brown?

#### TESTIMONY OF EDGAR D. BROWN, POTTSVILLE, PA.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BROWN. I do.

Mr. PECORA. Your full name, Mr. Brown?

Mr. BROWN. Edgar D. Brown.

Mr. PECORA. And where do you live?

Mr. BROWN. In Pottsville, Pa.

Mr. PECORA. What is your business or occupation?

Mr. BROWN. I have none. Oh, yes; I am clerking for the poor board.

Mr. PECORA. What was your business or occupation?

Mr. BROWN. I was a theatrical manager, owner, and producer.

Mr. PECORA. In the early part of the year 1928 were you a resident of Pottsville, Pa.?

Mr. BROWN. Yes, sir.

Mr. PECORA. And at that time were you contemplating making a trip for your health to the State of California?

Mr. BROWN. I was.

Mr. PECORA. About the time that you had arranged to leave your home for California did you have any business transactions with the National City Co.?

Mr. BROWN. Yes, sir.

Mr. PECORA. How did the transactions originate?

Mr. BROWN. I saw an ad in a national magazine that fitted my particular dilemma.

Mr. PECORA. What was the substance of this ad, as you recall it?

Mr. BROWN. It said—I can not quote verbatim.

Mr. PECORA. No; the substance of it.

Mr. BROWN (reading):

Are you thinking of a lengthy trip? If you are, it will pay you to get in touch with our institution, because you will be leaving the advice of your local banker and we will be able to keep you closely guided as regards your investments.

Mr. PECORA. Whose name was signed to that advertisement? Was it the National City Bank or the National City Co.?

Mr. BROWN. National City Bank.

Mr. PECORA. What did you do, if anything, when you read that advertisement?

Mr. BROWN. Why, it struck me, Mr. Pecora, as suiting my needs, and I answered the advertisement.

Mr. PECORA. Did you receive a reply?

Mr. BROWN. A man called that I had never seen before.

Mr. PECORA. Do you know his name?

Mr. BROWN. Yes.

Mr. PECORA. What was his name?

Mr. BROWN. Fred Rummel.

Mr. PECORA. Did he tell you whom he represented?

Mr. BROWN. He told me he represented the National City Co. and that they had received a letter from me.

Mr. PECORA. Your letter was addressed to the National City Bank?

Mr. BROWN. I think so.

Mr. PECORA. And a Mr. Rummel of the National City Co. called to see you in response to your letter?

Mr. BROWN. Yes, sir.

Mr. PECORA. Now tell the committee briefly the substance of the conversation you had at that time with Mr. Rummel.

Mr. BROWN. I told Mr. Rummel that I had just sold my chain of theaters to different individuals and that the proceeds were becoming due and that I would need to invest them and that I was contemplating leaving for the West Coast and that I was glad he had called in response to my letter. I wanted his guidance in investing those funds.

Mr. PECORA. Did you tell him how much money you had available for investment at that time?

Mr. BROWN. Yes, sir.

Mr. PECORA. What did you say to him about that?

Mr. BROWN. I told him that I would have approximately \$100,000 to invest.

Mr. PECORA. What did Mr. Rummel say to you about that?

Mr. BROWN. He told me that he would make—I had some bonds as well as some cash. The cash was becoming due, Mr. Pecora.

Mr. PECORA. That is, the cash from the proceeds of the sale of your theaters?

Mr. BROWN. Yes, sir.

Mr. PECORA. It was about to be paid by the purchasers?

Mr. BROWN. Yes, sir.

Mr. PECORA. And you told that to Mr. Rummel?

Mr. BROWN. Yes, sir.

Mr. PECORA. You said that cash would amount to about \$100,000?

Mr. BROWN. Together with bonds that I had at the time.

Mr. PECORA. What kind of bonds had you at the time?

Mr. BROWN. I had Government bonds.

Mr. PECORA. United States Government bonds?

Mr. BROWN. Yes, sir; and some Italian Government bonds. About \$25,000 all told.

Mr. PECORA. Yes. Now, did Mr. Rummel give you any advice concerning the investment you should make with your resources?

Mr. BROWN. He said that he would take that up with his company and would advise me.

Mr. PECORA. What happened thereafter?

Mr. BROWN. He came back with certain recommendations for the sale of all of the securities I had.

Mr. PECORA. That included the United States Government bonds?

Mr. BROWN. Yes, sir.

Mr. PECORA. Yes. Go ahead.

Mr. BROWN. And the purchase of other bonds through his company.

Mr. PECORA. Were there any specific issues that he recommended you to buy with the proceeds of the sale of the Government bonds?

Mr. BROWN. I don't remember.

Mr. PECORA. Tell the committee from that point on in your own way—

Mr. BROWN (interposing). Oh, I can remember some, Mr. Pecora. One was that issue of Peru that we spoke about.

Mr. PECORA. You mean the Peruvian bonds that were the subject of testimony here yesterday?

Mr. BROWN. Yes, sir.

Mr. PECORA. Tell the committee in your own way, Mr. Brown, if you will, just what transactions and negotiations led to the making of investments by you with representatives of the National City Co. from that point on. Just tell the committee in your own narrative.

Mr. BROWN. My attention was called to the fact that all the securities which I then held were all wrong, and certain recommendations were made for the purpose of replacing those securities, and loans were made at banks which I had never been in. The first loan was made at the National City Bank of New York of \$75,000.

Mr. PECORA. Who arranged that loan?

Mr. BROWN. Mr. Rummel.

Mr. PECORA. Had you ever before had any dealings or transactions with the National City Bank or the National City Co.?

Mr. BROWN. I had never been in them; no, sir.

Mr. PECORA. Give the committee, please, the general circumstances surrounding the making of the loan, what induced it, what the purpose was, and what you did with the proceeds of the loan.

Mr. BROWN. My attention was called by Mr. Rummel that if I could buy bonds below par that were paying  $7\frac{1}{2}$ , netting  $7\frac{1}{2}$  per cent, and borrow the money at 5 or  $5\frac{1}{2}$  per cent, that I could make the difference on the borrowed money and pay off those loans when the bonds came back, as he expected they would go to par.

Mr. PECORA. Did you also invest at that time upon his recommendation any part of the \$100,000 approximately, which you had in cash or obtained as a result of the sale of your Government bonds? Did you make any investments through Mr. Rummel of that money?

Mr. BROWN. Yes, sir.

Mr. PECORA. Tell the committee about those investments.

Mr. BROWN. They are substantially the same, Mr. Pecora, as the loan at the National City Bank.

Mr. PECORA. Tell us about that.

Mr. BROWN. We would buy Greek Government 6's and have them sent to a bank in Reading that I had never been in, the Northeastern Trust Co., and a loan approximately 2 or 3 times that amount, the amount of the value of the bonds, would be placed and other bonds equal to that sum would be purchased.

Mr. PECORA. Upon whose judgment were the investments made?

Mr. BROWN. I am presuming upon that of the National City Bank and National City Co. because he was their representative.

Mr. PECORA. You mean Mr. Rummel?

Mr. BROWN. Yes, sir.

Mr. PECORA. Had you made any suggestions to him concerning the specific securities that you wanted to invest your moneys in—

Mr. BROWN (interposing). Only that I did not want stock.

Mr. PECORA. — or did you leave that entirely to his judgment?

Mr. BROWN. I left it entirely to his judgment, except that I specified I did not want stocks.

Mr. PECORA. You wanted fixed interest security?

Mr. BROWN. Yes, sir.

Mr. PECORA. Fixed income security?

Mr. BROWN. Yes, sir.

Mr. PECORA. Such as bonds?

Mr. BROWN. Yes, sir.

Mr. PECORA. What investments were made for you by Mr. Rummel?

Mr. BROWN. I would have to consult my records.

Mr. PECORA. Please do that, will you, if you have your records with you?

(The witness left the witness chair for a few moments and returned with documents.)

Mr. BROWN (handing document to Mr. Pecora). That will give you an idea, Mr. Pecora. It is entirely too lengthy to read. They were bought and sold and traded in to such an extent that I could not follow it.

Mr. PECORA. What was the aggregate amount of investments in dollars and cents that you made under Mr. Rummel's advice and guidance?

Mr. BROWN. I should say \$200,000 to \$250,000.

Mr. PECORA. You had approximately \$100,000 of capital to start with in the early part of 1928 when you first met Mr. Rummel?

Mr. BROWN. Yes, sir. I want to correct that. That is December or November, 1927, instead of the early part of 1928.

Mr. PECORA. All right. Where did you get the funds above that amount—

Mr. BROWN (interposing). They were borrowed.

Mr. PECORA. —that you invested to the aggregate to \$200,000 to \$250,000?

Mr. BROWN. They were borrowed at various banks.

Mr. PECORA. Through whose instrumentality were those loans effected?

Mr. BROWN. Only through Mr. Rummel's.

Mr. PECORA. And at what banks were those loans placed?

Mr. BROWN. The Northeastern Trust Co. of Reading, Pa.

Mr. PECORA. Had you ever had any business transactions with that bank before?

Mr. BROWN. No, sir.

Mr. PECORA. Go ahead.

(There was a pause.)

Mr. PECORA. May I read into the record the list produced by the witness as being a list of the securities in which investments were made for him in the manner that he has indicated?

Mr. BROWN (handing other documents to Mr. Pecora). That is the bank in Philadelphia, sir.

Mr. PECORA. Beginning with 14th of December, 1927, \$2,000 of Vienna 6 per cent bonds, due 1952; 30th of December, 1927, \$15,000 of the same issue of Vienna bonds; 30th of December, 1927, \$15,000 German Central Bank 6's due in 1960; December 30, 1927, \$15,000 of Saxon Public Works 6 per cent bonds, due 1951; December 30, 1927, \$15,000 Remington Rand 5½'s, due 1947.

Well, the list is so lengthy I will ask that it be spread on the record, Mr. Chairman.

The CHAIRMAN. If there is no objection, it is so ordered. (The list is as follows:)

Edgar Brown, Pottsville, Pa.

Date		Amount	Security	Price
Dec. 14, 1927	Sold to.....	\$2,000	Vienna, Austria, 6's, due November, 1952.....	90½.
Dec. 30, 1927	do.....	15,000	do.....	90½.1
Do.....	do.....	15,000	German Central Bank 6's, Oct. 15, 1960.....	91½.1
Do.....	do.....	15,000	Saxon Public Works, ½'s, May, 1951.....	95.1
Do.....	do.....	15,000	Remington Rand 5½'s, May, 1947.....	95.1
Do.....	do.....	15,000	Kingdom of Italy 7's, December, 1951.....	99.
Do.....	do.....	150 shares.	Willys-Overland 7 per cent preferred stock.....	92½.
Do.....	do.....	\$15,000	Rhine Westphalia 6's, May, 1952.....	92½.1
Jan. 17, 1928	do.....	10,000	Chicago, Milwaukee, & St. Paul & Pacific R. R. 5's, January, 2000.....	65.
Do.....	do.....	100 shares.	Belgian National Railways, par. preferred stock.....	85½.
Jan. 23, 1928	do.....	150 shares.	Geo. A. Fuller Co. pr. preferred stock.....	106½.
Feb. 27, 1928	do.....	\$15,000	Rhine Westphalia Electric 6's, May, 1952.....	93½.
Do.....	do.....	15,000	Greek Government 6's, February, 1968.....	91.1
Do.....	do.....	15,000	Missouri Pacific Ry. 4's, March, 1975.....	80½.
Do.....	do.....	150 shares.	Belgian National Ry., par. preferred stock.....	86.
Do.....	do.....	\$13,000	Republic of Peru 5's, December, 1960.....	92½.
Do.....	do.....	15,000	Erie R. R. 5's, May, 1967.....	96½.
Mar. 20, 1928	do.....	15,000	Irish Free State 6's, November, 1960.....	97.
July 24, 1928	do.....	100 shares.	Mohawk Carpet Mills common stock.....	40.
July 31, 1928	do.....	150 shares.	Postal Telegraph & Cable 7 per cent preferred stock.....	101.
Aug. 1, 1928	do.....	\$10,000	Northern Ohio Power & Light 6½'s, January, 1941.....	97.
Aug. 3, 1928	do.....	5,000.	Saxon State Mortgage 6's, September 1947.....	91.
Aug. 7, 1928	Bought of...	5,000	Erie R. R. 5's, May 1, 1967.....	1,000 at 93½— \$2; 2,000 at 93½ — \$2; 2,000 at 93½ — \$2.
Do.....	do.....	150 shares.	Missouri, Kansas & Texas 7 per cent preferred.....	100 shares 103½ — 25 cents; 50 shares, 108½ — 24 cents.
Do.....	do.....	\$2,000	Mortgage Bank of Chile 6½'s, 1957.....	98½—\$2.
Aug. 9, 1928	do.....	2,000	Republic of Chile 6's, April, 1960.....	93½.
Do.....	do.....	4,000	Republic of Chile 6's, February, 1961.....	93½—20 cents.
Aug. 17, 1928	do.....	2,000	Vienna, Austria 6's, November, 1952.....	98½—\$2.
Do.....	do.....	4,000	Italian Credit Consort 7's, 1947.....	94½—\$2.
Aug. 18, 1928	do.....	4,000	Antioquia Col. 7's, 1945.....	97—\$2.
Oct. 2, 1928	Sold to.....	100 shares.	Rhine Westphalia Electric common stock.....	51.
Mar. 20, 1928	Bought of...	15,000	Erie R.R. 5's, May, 1967.....	99½.
Mar. 22, 1928	Sold to.....	10,000	Budapest, Hungary 6's, June, 1962.....	87½.
Mar. 23, 1928	do.....	5,000	do.....	87½.
Apr. 3, 1928	Bought of...	15,000	Missouri Pacific Ry. 4's, March, 1975.....	81—\$2.
Apr. 11, 1928	Sold to.....	10,000	Fiat S. F. 7's, July, 1946.....	106.
Apr. 18, 1928	do.....	100 shares.	U. S. Realty & Improvement common stock.....	87.
Do.....	do.....	15,000	Erie R. R. 5's, May, 1967.....	98½.
Apr. 25, 1928	do.....	150 shares.	Missouri, Kansas & Texas 7 per cent preferred.....	105½.
May 2, 1928	do.....	15,000	German Central Bank for Agriculture 6's, Apr. 15, 1938.....	95½.
Do.....	Bought of...	150 shares.	Geo. A. Fuller Co. prior preferred stock.....	109.
May 8, 1928	Sold to.....	15,000	German Central Bank for Agriculture 6's, Apr. 15, 1938.....	98½.
May 14, 1928	do.....	100 shares.	American Power & Light 5 per cent preferred.....	95.
Do.....	Bought of...	10,000	Erie Railroad 5's, May 1, 1967.....	96½.
May 21, 1928	Sold to.....	15,000	Greek Government 6's, February, 1968.....	89.
Do.....	Bought of...	15,000	Kingdom of Italy 7's, December, 1951.....	100.
May 31, 1928	do.....	10,000	Fiat S. F. 7's, July, 1946.....	118—\$2.
Do.....	Sold to.....	10,000	Norwegian Hydro 6½'s, due November, 1957.....	83.
June 5, 1928	do.....	10,000	Remington Rand 5½'s, May, 1947.....	95½.
June 7, 1928	do.....	10,000	German General Electric 6's, April, 1948.....	95.

! These are being held by the National City Bank against your loans.

*Edgar Brown, Pottsville, Pa.—Continued*

Date		Amount	Security	Price
June 13, 1928	Bought of...	150 shares.	Willys Overland 7 per cent preferred.....	100.
July 10, 1928	do.....	\$10,000	German General Electric 6's, April, 1948.....	95.
July 11, 1928	Sold to.....	10,000	State of Rio Grande do Sul, June, 1968.....	94½.
July 12, 1928	do.....	100 shares.	Cannon Mills common stock.....	48.
Oct. 16, 1928	do.....	275 shares.	Andes Copper Mining common stock.....	37½.
Do.....	do.....	12 shares.	do.....	37½. <sup>1</sup>
Oct. 2, 1928	Bought of...	50 shares.	Postal Tel. & Cable 7 percent preferred stock...	103¼-25 cents.
Oct. 16, 1928	do.....	100 shares.	do.....	102¼-25 cents.
Do.....	Sold to.....	288 shares.	Andes Copper Mining common stock.....	37. <sup>1</sup>
Oct. 18, 1928	Bought of...	\$10,000	Northern Ohio Power & Light 6½'s, Jan. 1941.....	96.
Oct. 19, 1928	Sold to.....	100 shares.	Pennsylvania Dixie Cement 7 percent preferred stock.	85.
Oct. 24, 1928	do.....	\$14,000	Remington Rand 5½'s, May 1947.....	94¼-20cents.
Oct. 25, 1928	Bought of...	\$1,000	do.....	93¼-20cents.
Nov. 20, 1928	Sold to.....	425 shares.	Andes Copper Mining common stock.....	47½-15cents.
Nov. 27, 1928	Bought of...	50 shares.	Cannon Mills Co. common stock.....	47½-15cents.
Do.....	do.....	\$10,000	Norwegian Hydro 6½'s November 1957.....	92.
Do.....	do.....	100 shares.	Cannon Mills common stock.....	47½-15cents.
Do.....	do.....	100 shares.	Mohawk Carpet Mills common stock.....	56-17½.
Dec. 3, 1928	Sold to.....	100 shares.	Baltimore & Ohio R. R. common stock.....	121.
Dec. 5, 1928	do.....	50 shares.	Cannon Mills Co. common stock.....	46½-16cents.

<sup>1</sup> These are being held by the National City Bank against your loans.

Mr. PECORA. The last transaction shown on this list is dated December 5, 1928, a transaction in the shares of the common stock of Cannon Mills Co. What other bank loans were arranged to enable you to make these investments?

Mr. BROWN. North American Trust Co., of Philadelphia.

Mr. PECORA. How much of a loan did you get there?

Mr. BROWN. I do not remember definitely.

Mr. PECORA. What other bank loans were negotiated for your accommodation by Mr. Rummel?

Mr. BROWN. The Pennsylvania National Bank in Pottsville.

Mr. PECORA. Had you ever done business with that bank?

Mr. BROWN. Yes, sir; I had.

Mr. PECORA. How much of a loan did you get there?

Mr. BROWN. I think it was \$5,000.

Mr. PECORA. What other bank loans?

Mr. BROWN. The Safe Deposit Bank, possibly. I think that loan was \$20,000.

Mr. PECORA. Go ahead.

Mr. BROWN. And the National City Bank in New York City.

Mr. PECORA. How much of a loan did you get there?

Mr. BROWN. \$75,000.

Mr. PECORA. Anywhere else; any other bank loans?

Mr. BROWN. Yes, sir. One at the Northeastern Trust Co., of Reading, for about \$80,000. I think with my original collateral that would about make it.

Mr. PECORA. In the investments that were made by you, that were made for you—Oh, do you recall a loan that was obtained for you from a bank in Los Angeles by Mr. Rummel?

Mr. BROWN. Oh, yes.

Mr. PECORA. What was the name of that bank?

Mr. BROWN. That was not obtained by Mr. Rummel. That was obtained by a Mr. Anderson of the Los Angeles branch bank?

Mr. PECORA. Of what Los Angeles branch bank?



Mr. BROWN. Of the Los Angeles branch of the National City Bank.

Mr. PECORA. I see. Now what collateral was that loan secured by?

Mr. BROWN. Oh, I think an important thing has been missed which will have to be brought out.

Mr. PECORA. Go ahead and tell us about it.

Mr. BROWN. These bonds which I bought instead of accruing in value declined steadily in value, and I complained.

Mr. PECORA. You complained to whom?

Mr. BROWN. Mr. Rummel.

Mr. PECORA. Yes?

Mr. BROWN. And he said, "Well, that is your fault for insisting upon bonds. Why don't you let me sell you some stock?"

Well, the stock market had been continually moving up. So then I took hook, line and sinker and said "Very well. Buy stock."

Mr. PECORA. Did you tell him what stocks to buy?

Mr. BROWN. Never.

Mr. PECORA. Did he buy stocks then for your account?

Mr. BROWN. Might I answer that facetiously—Did he buy stocks? (Great and prolonged laughter.)

Mr. PECORA. The witness produces a large batch of confirmations of purchases of various stocks. They are so numerous, Mr. Chairman, that I do not think it necessary to spread them all on the record.

Now, go ahead and tell the committee of the investments that were made for your account, if not benefit.

Mr. BROWN. In early 1929 I went to New York City, without telling anyone connected with the National City Co. that I was going there, on an irregularity in the purchase of Andes Copper Stock and also to complain to the officers of that company that I feared that I was being a shorn lamb, and I went and asked to see one of the officials of the company. I was introduced to a Mr. H. W. Beebe. I laid my complaint before him that my original sum of money, notwithstanding a rising market and the violence with which I had been traded in, was, so near as I could determine, less in value—I say so near as I could determine, Mr. Pecora, because I could not tell where I stood.

I present telegrams to show that I tried to get my accounts balanced at these various banks that I was being traded in, in order to balance my books, to find out where I was.

And Mr. Beebe said that he would make some recommendations to a Mr. — "the manager of our Philadelphia office." I went away feeling that that would be done. I told him that I disliked the violent trading, and he said a recommendation would be made. I told him that I was fearful that a reaction in the market might wipe me out, and that I had no income and he said that he would confer with the manager of the Philadelphia office

Following that I was called upon by their agent.

Mr. PECORA. Can you give his name? Can you give the agent's name?

Mr. BROWN. The same man, Mr. Rummel.

Mr. PECORA. Go ahead.

Mr. BROWN. With the recommendation that we trade the remaining securities that we had for 200 shares of National City Bank, the 1,000 shares of Andes, which became 450 Anaconda, 250 shares of

Oliver Farm, and 100 shares of Cannon Mills stock, and sit still on that and see what would happen. [Laughter.]

About that time I went to Los Angeles. When I got there——

Mr. PECORA (interposing). What time was this that you are speaking of?

Mr. BROWN. In August of 1929.

Mr. PECORA. Go ahead.

Mr. BROWN. The eastern banks wanted my loans moved, because I was moving out of the territory and out of touch with them and a Mr. Anderson of the Los Angeles office arranged with a bank I had never been in, the Farmers & Merchants Bank, to loan me on those securities which I have just read into the record, \$105,000, \$95,000 of which was used to reduce the \$100,000 they had borrowed for me in the East, and \$10,000 to be kept on hand in the bank, a banking custom I have since learned. That was in August.

In September, from data that I have made, I noticed that the prices of those stocks were declining, and I concluded that at the first opportunity I would clean out the whole business.

And about October the 4th I went into the National City Bank and asked them to sell out everything.

Mr. PECORA. That is the branch in Los Angeles you are speaking of?

Mr. BROWN. Yes, sir.

Mr. PECORA. Go ahead.

Mr. BROWN. I was placed in the category of the man who seeks to put his own mother out of his house. I was surrounded at once by all of the salesmen in the place, and made to know that that was a very, very foolish thing to do.

Mr. PECORA. That is, to sell your stocks?

Mr. BROWN. Especially to sell the National City Bank stocks.

Mr. PECORA. What was the quotation at that time for the National City Bank stock, if you recall?

Mr. BROWN. About \$490—\$500. \$500. I then received an unsolicited wire from their agent in the East, who did not know where I was from any knowledge that I had given him, a telegram.

Mr. PECORA. Have you got it with you?

Mr. BROWN. A short one. I have got it.

Mr. PECORA. Read the telegram into the record, will you?

Mr. BROWN (reading):

OCTOBER 8.

Edgar Brown,  
Beverly Hills, California—

This was the day following my conference in the Los Angeles bank. It reads:

National City Bank now 525. Sit tight.

I had had no connection with Mr. Rummel for 4 months. I did not see how he knew where I was.

Mr. PECORA. Is that Mr. Rummel's name signed to that telegram? F. C. Rummel?

Mr. BROWN. Yes.

Mr. PECORA. Proceed.

Mr. BROWN. I still continued my endeavors to get that stock. I realize that this testimony sounds rather foolish, to think that a man can not go in and say, "Sell that stock" and walk out. But it was not as easy as it sounds, because each time I would go to sell it they

would call my attention to the fact that it had gone up a couple of points.

But on October the 29th they sold the 200 shares of National City Bank stock and the 450 shares of Anaconda, and so on—they sold that without my specific command, stating that the Farmers Bank was calling my loan at that time, which I afterward found out was not the case.

Now in connection with that let me say that that was a Tuesday. The price of that stock when it closed on Monday was \$460 a share. And at 7 o'clock on Tuesday morning, which was the equivalent of 10 in New York, I was told that the stock was crashing, and I either had to get out or be sold out by the bank. I was helpless. They got \$320 for it. But instead of selling it they bought it themselves for \$320.

Mr. PECORA. The witness produces a confirmation.

Mr. BROWN. In the Wall Street Journal the stock was quoted at \$360.

Mr. PECORA. The witness produced a confirmation from the National City Co. of California, Los Angeles, dated October 29, 1929, reading as follows:

DEAR SIR: In accordance with instructions we are pleased to confirm purchase from you of 200 shares National City Bank of New York stock at \$320 flat, and We have sold for your account 400 shares Anaconda Copper Mining Co. common stock at 79½ flat less 20 cents a share commission of our broker.

Fifty shares of Anaconda Copper Mining Co. common stock at 79½ flat.  
100 shares Eastman Kodak stock at 170 flat, less 25 cents a share commission to our broker.

Settlement and disposition will be made in accordance with your instructions.

Very truly yours,

(Signed)

THE NATIONAL CITY CO. OF CALIFORNIA,  
R. R. HODGE, *District Sales Manager.*

What did you say was the quotation for the National City Bank stock on October 29, 1929?

Mr. BROWN. \$450.

Mr. PECORA. What was the quotation on Tuesday, October 30?

Mr. BROWN. \$360. That is when I gave the order.

Mr. PECORA. And they confirmed a purchase from you at \$320?

Mr. BROWN. Yes, sir. This will prove that I knew nothing about the letters. The second paragraph.

Mr. PECORA. We will come back to this later on. Just finish your narrative of your transactions with the National City Co.

Mr. BROWN. I felt that I had been very badly used, and protested.

Mr. PECORA. Well, in what way did you protest?

Mr. BROWN. Personally, to the New York office. I wrote to Mr. Beebe. I believe you have a copy of that letter there. I have got it. Do you want me to read it?

Mr. PECORA. Yes.

Mr. BROWN (reading):

BEVERLY HILLS, CALIF.,  
October 31, 1929

Mr. W. W. BEEBE,  
*Assistant Vice President, National City Co., New York City.*

MY DEAR MR. BEEBE—

Shall I omit any personal parts of the letter?

Mr. PECORA. Yes. Just read the portion relating to the stock transaction.

**Mr. BROWN (reading):**

I am the chap from Pottsville, Pa. \* \* \* who with my wife called on you some months ago concerning an irregularity in the purchase of Andes copper through your Fred Rummel in Pottsville, and complained about being sold too much stock and traded in too rapidly \* \* \* this I relate only to identify myself.

I told you, if you will recall, that I would like you to take my funds in to the New York bank and trade in them there where you personally could watch them, but this you said you were unable to do, but appreciated this show of faith on my part in the National City Co., and added that I was perfectly safe in following the advice of the company right where I lived.

Almost immediately after I left you I developed tuberculosis and was advised to come out here for my health.

As soon as I arrived I went to your offices \* \* \* and met Mr. Arthur Anderson, and told him that I would like to have my banking facilities moved out here; that I naturally wanted the National City Co. to look after my financial affairs.

He arranged to have my stock moved to the Los Angeles Farmers & Merchants Bank, and after it was out here recommended one or two minor changes which, as always, I complied with.

My collateral list at that time amounted to \$170,000 face value, comprised of National City stock, Anaconda Copper, Cannon Mills, and Oliver Farm. The loan was for \$105,000—the loan actually really was only \$95,000, but they loaned me \$105,000 and asked me to let \$10,000 lie in the bank and use the remaining \$95,000 to lift the draft \* \* \*.

All was well. My collateral grew until it was approximately worth its original \$200,000. \* \* \* At this point I begged Anderson to sanction my selling, but he insisted that City Bank would go to \$750 at the very least.

Now I have made it a rule since the day I first came with the National City with the proceeds of my first theater sale for them to invest—that I would never buy or sell anything without their sanction and would always act upon any suggestions which they might make, and to this day I have never once departed from that rule. \* \* \*

I bought thousands of shares of stock on their suggestion which I did not know whether the companies they represented made cake, candy, or automobiles. I just stuck to that rule feeling that it was the only safe thing to do, but it was really the only way in which I could be safe. But, alas, I am apparently wrong in placing my faith so.

If you can find a single transaction in the thousands of shares I have bought and sold through your company where I have made any personal suggestion or acted on my own initiative without some one in the National City Co. saying, yes, that is the proper thing to do, or if you can find a single suggestion, just one, concerning a transaction, which I have made up until this time regarding the sale of your stock I will be pleased to withdraw that plea for help which I am about to make.

On Monday night of this week Anderson called me on the phone and said, "Brown, things are looking terrible."

**At that time the stock was 450 (continuing reading):**

"I think the market might bust wide open tomorrow morning and let you out. You'd better come down and watch it. If they move off you get out from under." I had really never been in a board room. This morning I got up at 6 o'clock and was in the board room next to the National City Bank before the exchange opened, which it did at 7. Anaconda closed, so Anderson said, at 96 the night before and the first opening was for 45,000 shares at 80. Anderson said to myself and to Mrs. Brown, "Now, if this thing strengthens up the first hour everything will be all right, but if it does not, look out." He watched the proceedings, moving nervously about for approximately an hour, and I said, "What do you think about it?" Anaconda was above its opening all this while. He replied, "I don't know. The ticker is late out here and I can't tell. I'll walk over to our office and see what news is coming in direct."

Marie and I—my wife—remained until after another hour had passed. I was about as blue as a poker chip. Everybody was groaning and my godding until I said, "Come on, let's go out into the air. This stuff will be all right. These

folks are just getting panicky." We began to think of places where we might go to scrape a little cash together to buy some more Anaconda and make our lot an even 500. As I went in the door of your offices here I noticed that they were deserted save Mr. Anderson. I said, "Wait a minute, I'll see if he has any news." Just as I got to him he hung up the telephone as I reached his desk, and he said, "My God, Brown, City Bank is crashing. The banks are in on this thing and the market is actually way under what it is quoted out here."

Which was not true.

"My advice to you is to get out. Bank stock is well down under 350."

Well, now, I ask you in all earnestness, having taken the National City Co.'s advice, which you can readily prove, in every other case, what was I to do in this instance? Where was I to turn? Who did I know? I said, "Let's ask Kane."

Mr. Kane was the Los Angeles manager.

He said, "He is in Frisco." I said, "Well, where is Judge Ryan?"

He was the head of the Los Angeles Branch Bank.

He said, "Oh, I would not be surprised if he has gone out and cut his throat." I said, "Well, Andy, this thing is serious—now, I don't have to sell, but if you think it is the right thing to do I suppose I'll have to ride along—I presume that even somewhat below the prices quoted on the board I'll have at least \$25,000 left."

I walked to the door where my wife was waiting and told her what I had done, and she was furious. She being an even-tempered soul felt that I had made a mistake—and, brother, I had. She said, "You go back in there and tell him not to sell that stock. We were just talking about other people getting panicky; now why get hysterical?"

So back in I went. Anderson stood his ground. He said, "The only thing to do is to get out." Besides, he said, "The order has gone in and I can not stop it." (I have a witness for this.)

"Anyway," he said, "the way they are busting this thing open you'll be able to buy back all the Anaconda you want at 65, and anyhow, the bank is calling your loan."

So I went over to the Farmers & Merchants Bank to report not only what I had done \* \* \* and they just gave me hell. They said they were not even thinking of calling me. That my cash account and my stock value even at the last low was such that they were not even putting out letters or phone calls for me.

Well, I was nearly crazy. Naturally they could not loan me any more money. since my security was all sold, so

I hurried to Anderson and I asked him to try to get me some from City Bank and to buy a thousand Anaconda, using my cash in my account. Whether he actually wired or not I don't know, but he called a little while later and he said, "They won't loan you a cent on a thousand Anaconda."

The next morning when I woke up I discovered that instead of 350 for my City Bank I got 320 and so on down the line, so that my calculated \$25,000 was in reality \$8,000 \* \* \*.

Now for my request.

Three years ago I came with your company with the profit on some real estate sales amounting to approximately \$100,000. I'll pay you anything I now own if in these three years you can find a single instance where I did not first call up your office before making a sale or a purchase or complying with any suggestions you ever made. This statement is totally and wholly true. In all that time I never bought a single share of stock through any person or company except your company.

Now get this picture.

I am now 40 years of age—tubercular—almost totally deaf—my wife and family are depending on me solely and alone and because of my abiding faith in the advice of your company I am to-day a pauper.

I am absolutely certain that if your man Anderson had sought the advice of any of his superiors, or any of them had been within consulting distance they would have stopped him from innocently, but none the less thoroughly, ruining me by his rattleheadedness. And I am equally certain that if before you ask

him, whether or not this is true, you assure him that he will not lose his job if he confesses the truth, he will admit every word as I have written it. I believe, however, that he would rightly fear that he would be fired and will therefore change the coloring of it. But if you ask him to answer yes or no whether he advised me to get out while I still had something and assure him that no matter how he answers he will still be working for you—he'll say, "yes," I told him to get out.

Everybody out here says \* \* \* that I am only wasting stamps by writing to you, but I can not help feel that your character—something in your eye as we saw you makes us feel that you'll do more than say, "That's too bad."

Now what I ask him to do is to loan me enough money to buy a thousand shares of Anaconda stock by my putting up \$25,000 in cash, and their bank loaning me the balance.

I sent him a subsequent telegram following that letter, along the same line, and in reply to that he says this:

While we believe Anaconda is an attractive security for long-term investment we do not feel it advisable to make security purchases with borrowed funds except in cases where the purchaser has an earning power which will enable him within a reasonable time to pay off his loan and lock his securities in a safe-deposit box.

And this point I want to make clear to the examiner is that my status at that time was exactly the same as when I went in originally. I had no earning power and he knew it.

I wired again the second time, and again I got a second telegram in reply. My wire to him is as follows:

Mr. W. W. BEEBE,  
Vice president, National City Co.,  
No. 55 Wall Street, New York City:

Why do you object to my borrowing funds with which to purchase securities now when conditions concerning my income were no different when Rummel was doing that very thing much against my wishes and concerning which I complained to you personally? The only way in which I can possibly recover any appreciable portion of the fortune I lost through following implicitly the advice of the representatives of your company is to adopt the same purchasing methods they used and then sell out at a point where they formerly induced me to stay in. For example, I have ample witness that I wanted to sell City Bank stock after it crossed five hundred but was urged not to do so by Anderson here saying that it would sell over fifteen hundred before it would drop below five hundred and simultaneously I received this telegram from Rummel in Pennsylvania whose opinion I had not even asked and with whom I had not communicated for months. "City Bank stock now crossing five hundred twenty-five. Sit tight." Why was this permitted when Rummel knew all about my income or lack of it but borrowed in order to sell me three times as much stock as I should have been sold and in the face of this induced me to stay in against my wish and now you refuse to help me in buying some of these same securities under conditions exactly the same as when it was sold me in the first place, or perhaps I am misinterpreting your telegram and you are not refusing to get the loan for me but are merely advising me against doing it. Will you please wire again.

EDGAR D. BROWN.

In reply to that I got another telegram from Mr. Beebe, a very brief one, as follows:

Re your wire the thirteenth. At the time you first brought to my attention the condition of your account you will recall I asked the manager of your Philadelphia office to review that account and from time to time make recommendations.

No use reading this all.

Unless the borrower has assured earning power and could pay off the loan within six months without resorting to the sale of the collateral we would not make a collateral loan.

Mr. PECORA. But they did make the collateral loan to you back in 1928?

Mr. BROWN. Yes. The conditions, Mr. Pecora, were identical. There wasn't anything different about them.

Senator FLETCHER. But if you had bought Anaconda stock at the price then you would have lost just as much, would you not?

Mr. BROWN. Would you mind repeating his question?

Mr. PECORA. The Senator asked you if you had bought Anaconda then, that is at the time you sent that letter to Mr. Beebe, you would have lost just as much anyway?

Mr. BROWN. That is true. Undeniably. That is true. I would have.

Mr. PECORA. So that about covers your narrative?

Mr. BROWN. Yes.

Mr. PECORA. About your transactions with the National City Co.? Is that right?

Mr. BROWN. That is correct.

Mr. PECORA. Did you get anything back out of your investments?

Mr. BROWN. Not a cent.

Mr. PECORA. I think that is all to-day, Mr. Chairman.

The CHAIRMAN. The committee will adjourn until 10 o'clock tomorrow morning, and the witnesses under subpoena will be present at that time.

(Thereupon, at 4.55 p. m. Tuesday, February 28, 1933, an adjournment was taken until 10 o'clock a. m. the next day, Wednesday, March 1, 1933.)