

70 / 165

UNIVERSITY OF ILLINOIS BULLETIN

ISSUED TWICE A WEEK

VOL. XXIX

OCTOBER 13, 1931

No. 13

[Entered as second-class matter December 11, 1912, at the post office at Urbana, Illinois, under the Act of August 24, 1912. Acceptance for mailing at the special rate of postage provided for in section 1103, Act of October 3, 1917, authorized July 31, 1918.]

BUREAU OF BUSINESS RESEARCH
COLLEGE OF COMMERCE AND BUSINESS
ADMINISTRATION

BULLETIN No. 39
(Distributed November, 1931)

21750

INVESTMENT BANKING IN CHICAGO



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PUBLISHED BY THE UNIVERSITY OF ILLINOIS, URBANA
1931

It is the purpose of the Bureau of Business Research of the University of Illinois—

- (1) to study and as far as possible to explain economic and industrial conditions within the State;
- (2) to direct attention to experience-tested practices of good business management; and,
- (3) to investigate methods for securing the best executive control of business.

BUREAU OF BUSINESS RESEARCH

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PREFACE

The operations of any financial market in providing capital for enterprise are readily grouped into two main divisions, first, that of furnishing the business community with short term credit in the form of working capital, and, second, that of providing long term credit by which fixed or permanent capital is obtained. These two functions necessarily differ widely in both purpose and technique; they have, however, certain interrelations. The investment banker must maintain complete commercial banking connections, and, on the other hand, there has been an increasing tendency, particularly noticeable in the last few years, for large commercial banks to establish security company affiliates.

Previous bulletins of the Bureau's banking series have been devoted to the analysis of commercial banking operations in Chicago and the Seventh Federal Reserve District. The present study, which is concerned with the second function referred to, considers the extent and characteristics of investment banking in Chicago.

An investigation of investment banking involves difficulties not encountered in a study of commercial banking. Practically complete data on national and state-chartered commercial banks are compiled regularly by governmental authorities, and are readily available. No equally accurate sources exist for operations in the securities market. Moreover, the early data are presented in a form which makes it difficult to identify the various functions carried on by certain investment banking units and to determine the scope of their operations. This confusion is due in part to the fact that the investment bankers themselves do not employ a definite terminology. Even such commonly used terms as "originations," "underwritings," "participating distributors," and "wholesalers and retailers" may be interpreted in different ways. Furthermore, it has been within only a relatively short period, scarcely more than ten years, that any comprehensive compilations of security issues, grouped according to originating house and type of industry financed, have been undertaken.

It may be well to mention the more important sources of data covering investment banking operations. The outstanding current tabulation of security issues is that compiled monthly by *The Commercial and Financial Chronicle*. This monthly summary started with January, 1921, although underwriting data covering the years 1919 and 1920 were assembled in abbreviated form. Furthermore, since 1872 this publication has carried news items concerning new security issues.

Several New York newspapers, notably *The Wall Street Journal*, make a practice of showing periodically new security issues classified according to underwriting firms. Recently an important tabulation has been made by the National Statistical Service in its *American Underwriting Houses and Their Issues*. In this record are presented most of the important security issues, classified by issuing house and type of business underwritten. This work appears in published form from 1925 to the present.

It is to be noted that primary source records covering security underwritings are based on data obtained either by the questionnaire method or by the recording of issues currently advertised; in either case the summaries are incomplete. It follows, therefore, that the security issue figures throughout the present study tend to understate somewhat the true situation. The data presented herein are complete only in so far as the available sources provided adequate information. Care was taken by reference to directories to ascertain the correct location of those underwriting houses whose addresses were omitted in the sources.

An attempt is made in the following pages to trace briefly the development of investment banking in Chicago; to analyze particularly the period from 1921 through 1930; and to discover the relative volume of security issues originating in Chicago, the extent to which Chicago firms participate in new offerings led by outside houses, and the types of industry underwritten by them.

Acknowledgment is made of indebtedness to D. M. DAILEY for the preparation of the manuscript and to other members of the Bureau staff for assistance with many details.

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APPENDIX A

NUMBER OF CORPORATIONS, GROUPED ACCORDING TO STATE, SECURITIES OF WHICH
WERE OFFERED ENTIRELY BY CHICAGO BANKERS OR BY SYNDICATES
HEADED BY THEM; 1900, 1910, 1920, AND 1930

State	1900	1910	1920	1930
Alabama.....	..	1	..	..
Arizona.....	..	1	..	..
Arkansas.....	..	3	2	..
California.....	..	1	..	3
Colorado.....	..	1	..	..
Connecticut.....	1
Delaware.....	1	..
Florida.....	..	1	..	..
Georgia.....	..	1	1	..
Idaho.....	..	3	..	..
Illinois.....	6	16	58	34
Indiana.....	..	4	6	1
Iowa.....	3	2	..	3
Kansas.....	..	1	1	1
Kentucky.....	..	1	1	..
Louisiana.....	..	6	1	1
Maine.....	..	1	..	..
Massachusetts.....	4	..
Michigan.....	2	5	7	4
Minnesota.....	..	1	4	..
Missouri.....	..	1	3	7
Montana.....	..	1	..	..
Nebraska.....	2
New Jersey.....	1	1
New Mexico.....	1
New York.....	..	1	9	3
North Carolina.....	..	1	1	..
Ohio.....	..	3	8	2
Oklahoma.....	2	4
Oregon.....	..	1	..	..
Pennsylvania.....	5	5
Tennessee.....	..	1	2	..
Texas.....	..	8	1	4
Utah.....	..	2	..	..
Vermont.....	1	..
Virginia.....	..	1	..	..
Washington.....	1	1	1	1
West Virginia.....	..	2	..	3
Wisconsin.....	..	3	6	1
Wyoming.....	..	2	1	..
Foreign.....	..	4	1	5
Location Undetermined.....	5
Total.....	12	81	128	93

APPENDIX B

(A) DEFINITION OF SECURITY DEALER CLASSES AS GIVEN IN SEIBERT'S "SECURITY DEALERS OF NORTH AMERICA"

- (1) Brokers—Execute orders on a commission basis.
- (2) Dealers—Buy securities (other than new issues) for their own account or for distribution among their clientele.
- (3) Participating Distributors—Obtain allotments in new issues and distribute them among investors.
- (4) Underwriters—Originate an issue obligating themselves (and have sufficient capital or financial backing) to purchase any part of same that they fail to dispose of during an agreed upon period.
- (5) Originators—Originate but do not necessarily underwrite an issue.
- (6) Distributors of Own Originations—In most instances where this term is used it will be found that the firm in question handles speculative or semi-speculative issues of their own origin.
- (7) Stock Brokers—This term is used only where a firm executes orders in New York Stock Exchange Securities.

(B) EXTRACTS FROM CONSTITUTION OF INVESTMENT BANKERS ASSOCIATION OF AMERICA

From original constitution: Article II, Section 1—"Any national or state bank, trust company, private banker, banking firm, or corporation, in good standing, having a paid-in capital of \$50,000.00 or more, and which makes a practice of buying bonds or investment stocks, and publicly offers the same, as dealers therein, shall be eligible to membership in this Association." *Proceedings of the First Annual Convention of the Investment Bankers Association of America*, p. 229.

From present constitution: Article II, Section 2—"Any individual, corporation, partnership, or other legal entity of good reputation, engaged in the investment banking business, that is to say in the business of purchasing investment securities and publicly offering the same for sale as a dealer therein, and having not less than fifty thousand dollars (\$50,000) capital actively employed in the conduct of such business, is eligible for membership in this Association." *Proceedings of the Nineteenth Annual Convention of the Investment Bankers Association of America*, p. 297.

APPENDIX C

CITIES IN WHICH CHICAGO SECURITY HOUSES MAINTAINED BRANCH OFFICES, NOVEMBER, 1930

City	Number of Branch Offices	City	Number of Branch Offices
New York City, N. Y.	35	Dubuque, Iowa	1
Milwaukee, Wis.	30	Duluth, Minn.	1
Minneapolis, Minn.	21	Frankfort, Ky.	1
St. Louis, Mo.	19	Ft. Wayne, Ind.	1
Kansas City, Mo.	14	Gary, Ind.	1
San Francisco, Cal.	11	Green Bay, Wis.	1
Detroit, Mich.	10	Hammond, Ind.	1
Chicago, Ill.	8	Houston, Tex.	1
Philadelphia, Pa.	8	Jacksonville, Ill.	1
Des Moines, Iowa	7	Joliet, Ill.	1
Indianapolis, Ind.	7	Kalamazoo, Mich.	1
Los Angeles, Cal.	7	Kankakee, Ill.	1
St. Paul, Minn.	7	Kewanee, Ill.	1
Cleveland, Ohio	6	La Crosse, Wis.	1
Grand Rapids, Mich.	6	LaSalle, Ill.	1
Boston, Mass.	5	Lincoln, Nebr.	1
Louisville, Ky.	5	Mt. Sterling, Ill.	1
Omaha, Nebr.	5	Muskegon, Mich.	1
Seattle, Wash.	5	Newark, N. J.	1
Springfield, Ill.	5	New Orleans, La.	1
Pittsburgh, Pa.	4	Newport, R. I.	1
Portland, Oreg.	4	Oklahoma City, Okla.	1
Cincinnati, Ohio	3	Oshkosh, Wis.	1
Evanston, Ill.	3	Ottawa, Ill.	1
Lexington, Ky.	3	Owensboro, Ky.	1
Peoria, Ill.	3	Phoenix, Ariz.	1
Rochester, N. Y.	3	Portland, Me.	1
Cedar Rapids, Iowa	2	Providence, R. I.	1
Columbus, Ohio	2	Racine, Wis.	1
Evansville, Ind.	2	Richmond, Va.	1
Janesville, Wis.	2	Rochester, Minn.	1
Rockford, Ill.	2	Rock Island, Ill.	1
St. Joseph, Mo.	2	Scranton, Pa.	1
Toledo, Ohio	2	South Bend, Ind.	1
Albany, N. Y.	1	Streator, Ill.	1
Asbury Park, N. J.	1	Washington, D. C.	1
Atlanta, Ga.	1	Waterloo, Iowa	1
Aurora, Ill.	1	West Frankfort, Ill.	1
Baltimore, Md.	1	Wilkes Barre, Pa.	1
Bloomington, Ill.	1	Wilmette, Ill.	1
Buffalo, N. Y.	1	Winnetka, Ill.	1
Carbondale, Ill.	1	Winona, Minn.	1
Dallas, Tex.	1	Wooster, Ohio	1
Decatur, Ill.	1		

APPENDIX D

CLASSIFICATION OF SECURITY HOUSES IN CHICAGO AND NEW YORK ACCORDING TO FUNCTION, JUNE, 1930

Type of House	Number					
	Total		Houses (Home Office)		Branches of Outside Houses	
	Chi- cago	New York	Chi- cago	New York	Chi- cago	New York
Total	589	2,532	487	2,368	102	164
Originators Only.....	3	21	3	20	..	1
Originators, Underwriters, and Participating Distributors.....	27	10	27	10	..	..
Originators and Distributors.....	6	191	6	187	..	4
Underwriters and Participating Distributors.....	46	44	37	39	9	5
Underwriters Only.....	..	7	..	7	..	..
Participating Distributors Only.....	19	150	18	145	1	5
Originators, Underwriters, Participating Distributors, and Dealers.....	22	61	22	57	..	4
Underwriters, Participating Distributors, and Dealers.....	139	190	79	130	60	60
Participating Distributors and Dealers....	119	255*	111	230	8	25
Originators and Dealers.....	..	11	..	11	..	..
Underwriters and Dealers.....	..	11	..	9	..	2
Dealers Only.....	72	499†	69	474	3	25
Brokers Only.....	116	945	101	921	15	24
Miscellaneous Security Houses.....	20	137	14	128	6	9

*Of these firms, 49 indicate that they do a brokerage business.

†Of these firms, 138 indicate that they do a brokerage business.

Source of data: See Table IV.

APPENDIX E

INDEXES OF BUILDING OPERATIONS AND REAL ESTATE ISSUES (ORIGINATIONS) IN CHICAGO AND IN THE ENTIRE UNITED STATES; YEARS 1921-1930

Average 1921-1925 = 100

Year	Chicago		Entire United States	
	Building Operations	Real Estate Issues	Building Operations	Real Estate Issues
1921	47	12	58	17
1922	85	50	87	57
1923	123	49	106	80
1924	111	114	114	107
1925	135	276	135	239
1926	136	253	127	234
1927	132	265	113	213
1928	118	272	108	257
1929	75	117	95	168
1930	30	2	55	78

Sources of data: Real estate issues, see Table VI; building operations, *The Commercial and Financial Chronicle*, Volume 132, pp. 725-731.

APPENDIX F

SECURITY ISSUES (EXCLUSIVE OF REAL ESTATE AND STATE AND MUNICIPAL) OFFERED BY INVESTMENT BANKERS AS ORIGINATORS IN CHICAGO, IN NEW YORK, AND IN THE ENTIRE UNITED STATES; YEARS 1925-1928
(Amounts in 000's)

Year	Bonds			Stocks			Total		
	Chicago	New York	Entire United States	Chicago	New York	Entire United States	Chicago	New York	Entire United States
1925	\$302,204	\$2,720,030	\$3,497,529	\$ 38,467	\$ 838,877	\$1,083,075	\$340,671	\$3,558,907	\$4,580,604
1926	472,393	2,888,290	3,978,023	73,241	546,937	835,737	545,634	3,435,227	4,813,760
1927	764,034	4,153,920	5,829,077	68,101	990,344	1,309,635	832,135	5,144,264	7,138,712
1928	641,421	2,882,920	4,140,651	160,824	1,603,860	2,305,270	802,245	4,486,780	6,445,921

Source of data: *American Underwriting Houses and Their Issues*. "Bonds" includes notes and other obligations.

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39. Investment Banking in Chicago.