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BUREAU OF BUSINESS RESEARCH  
COLLEGE OF COMMERCE AND BUSINESS  
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BULLETIN No. 39  
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## INVESTMENT BANKING IN CHICAGO



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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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BULLETIN No. 39

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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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## I. THE DEVELOPMENT OF INVESTMENT BANKING IN CHICAGO

The originating and distributing of capital issues by firms specializing in this branch of banking is a surprisingly recent undertaking in the Middle West. It is probably safe to say that scarcely two generations ago there were not more than ten or twelve banking firms in the United States that could be termed investment bankers, and these were located in the East.

Investment banking houses take their rise in communities well advanced economically, never in those in the pioneer stage of industrial development. Capital moves from regions that are farther advanced industrially, and where surpluses have accumulated, to the newer regions. England shared in the construction of American canals, turnpikes, and early railroads during the years from 1825 to 1850 to a very large extent; and English investors for a long period thereafter acquired large volumes of our securities. Between 1850 and 1875 the English capital market was supreme; the greatest number of investment bankers was to be found there; surplus funds were directed to this market and thence in turn supplied to borrowing countries.

Progress in the economic advancement of America and the gradual accumulation of savings caused the securities market of New York to gain ground steadily. A new impetus was given to it when, as a result of the World War, the United States became a creditor nation, and it has now become the foremost center of investment banking in the world.

Until recently, commercial banking in Chicago and the Middle West had had a much greater growth than the fixed capital market. Municipalities financed themselves by selling bonds directly to the investor or to the local banking institutions, and the latter held these investments for their depositors. The underwritings of the major corporation issues including those of the railroads were led by New York houses, and often the entire syndicate was composed of Eastern firms. In so far as securities were disposed of in the Middle West, it was largely done through the Chicago offices of Eastern houses or through ordinary bankers acting in the capacity of dealers.

The 1902 (fall) edition of the *American Bank Reporter* listed, in addition to national and state banks and loan and trust companies, 120 "bankers and brokers" in Chicago. Among these latter institutions were a few private banks carrying on ordinary commercial operations;



most of them, however, might be classed as security houses, including, besides underwriters, those houses buying securities on their own account and offering them for sale, and brokers. With the aid of *The Economist* (Chicago), in which 21 additional firms were listed, the functions of approximately ninety of the firms for 1902 were arrived at with some degree of accuracy. The following tabulation summarizes these houses:

21 Dealers in securities (only)	22 Investment Security houses
5 Dealers and brokers	4 Investment Security houses and brokers
10 Commercial paper houses	4 Private commercial banks
25 Brokers in securities (only)	

The firms handling simply "investment securities," "stocks and bonds," or "bonds" very likely included quite a number that functioned only as dealers and brokers, as well as perhaps a smaller number that were in a position to originate new security issues. One of these houses advertised that it was engaged in the "promotion and financing" of new enterprises, another, that it was in a position to "purchase total issues," and a third, that it would "purchase outright entire issues." Ten firms indicated that they specialized in municipal bonds; four, that they made a specialty of real estate mortgages.<sup>1</sup>

At least nine of the 141 houses pointed out above were branches of New York firms. Sixty-one of the firms listed in the 1902 *American Bank Reporter* indicated the year of their establishment. The following is a summary of these data:

Year of Establishment	Number of Houses
Before 1880.....	8
1880-1884.....	6
1885-1889.....	6
1890-1894.....	19
1895-1899.....	15
1900-1902.....	7
Total.....	61

One is probably not far wrong in estimating that thirty years ago there were approximately seventy security houses (besides brokers) in Chicago functioning as dealers in stocks and bonds and that there were a number of firms among these that were in a position to handle entire new security issues of moderate amount or to participate in the underwriting of new issues. A considerable proportion of these latter houses restricted their operations almost exclusively to municipal bonds or real estate mortgages.

<sup>1</sup>In addition there were four banks doing a real estate mortgage business, in which they were pioneers; three of these were later absorbed by a large trust company.

During 1900 Chicago investment bankers brought out new securities amounting to almost  $7\frac{1}{3}$  millions, not including municipal or state issues.<sup>2</sup> In each of these issues the underwriting was handled by a single firm, or, if a syndicate was formed, the manager was a Chicago house. The underwriting of public utility securities predominated, these constituting ten of the twelve issues and 82 per cent of the total volume (Table I). One Chicago banker brought out alone a Michigan street railway bond issue of  $2\frac{1}{2}$  millions. Most of the flotations, however, were relatively small, three-fourths of them being under \$1,000,000 (Table II).<sup>3</sup> Eight of the ten public utility issues were less than one million dollars in amount, and more than one-half of them were under \$500,000. In only one instance, that of a million dollar underwriting for a Chicago meat packing company, was an issue brought out by more than one house. Of the twelve issues underwritten, five were those of Illinois corporations; and all except one of the issuing corporations were located within 400 miles of Chicago.

Nineteen hundred was a year, for the most part, of industrial prosperity in the midst of a period of industrial mergers and consolidations.<sup>4</sup> In the promotion and financing of large consolidations Chicago bankers played practically no part; almost without exception these were undertaken by Eastern houses. By far the largest bond issues were those of Eastern corporations. Of the total 137 millions in bonds of public utilities organized in 1899 (with a capitalization in excess of one million dollars) almost 90 percent was issued by companies located in states east of Ohio. Chicago underwriters took very little part in these offerings.

A search was made in the 1902 sources for issues brought out by Chicago houses, and 34 offerings were found which amounted to approximately 26 millions. The data concerning these issues are not presented in tabular form. Again public utility security issues led, this time with almost two-thirds of the total, aggregating \$15,822,000. Five industrial issues amounted to almost  $2\frac{1}{2}$  millions, and six railroad offerings to approximately  $7\frac{1}{2}$  millions. The largest single issue was one of 4 millions in bonds which was underwritten by a syndicate managed by a Chicago house. The next largest issue was one of  $3\frac{1}{2}$  millions handled by a single firm. Most of the flotations were relatively small—almost three-fourths of all the offerings being under one mil-

<sup>2</sup>Although the figures for 1900 are probably not quite so adequate as for the other years shown in Table I, in all likelihood they include the most important corporation issues.

<sup>3</sup>Actually three-fourths of the issues were under \$700,000 in amount.

<sup>4</sup>Willard Long Thorp and Wesley C. Mitchell, *Business Annals*. New York: National Bureau of Economic Research, 1926, p. 138.

TABLE I  
 SECURITY ISSUES OFFERED ENTIRELY BY CHICAGO INVESTMENT BANKERS OR BY SYNDICATES HEADED BY THEM;  
 YEARS 1900, 1910, 1920, AND 1930  
 (Amounts in 000's)

Year	Total		Public Utilities		Industrials		Railroads		Real Estate	
	Number of Issues	Amount	Number of Issues	Amount	Number of Issues	Amount	Number of Issues	Amount	Number of Issues	Amount
1900.....	12	\$ 7,320	10	\$ 6,020	2	\$ 1,300	..	..	..	..
1910.....	79	58,941	29	20,454	43	33,821	5	\$ 3,016	2	\$1,650
1920.....	128	267,615	26	49,175	98	215,190	1	1,000	3	2,250
1930.....	93	554,758	56	375,485	26	159,403	4	18,505	7	1,365

Source of data: "General Investment News" columns of *The Commercial and Financial Chronicle*.  
 Note: Both holding and operating companies are included; two "block" issues in 1910 are omitted.

TABLE II

PERCENTAGES OF THE NUMBER OF SECURITY ISSUES UNDER ONE MILLION DOLLARS IN AMOUNT TO THE TOTAL NUMBER OF ISSUES OFFERED ENTIRELY BY CHICAGO INVESTMENT BANKERS OR BY SYNDICATES HEADED BY THEM; YEARS 1900, 1910, 1920, AND 1930

Year	Total	Public Utilities	Industrials	Railroads	Real Estate
1900.....	75	80	50	..	..
1910.....	69	72	67	80	50
1920.....	46	36	48	0	67
1930.....	39	28	59	50	100

lion dollars in amount. Practically all the large flotations in the United States for that year were underwritten by New York houses alone or by syndicates managed by firms in New York in the membership of which Chicago firms were frequently invited to participate.

The Chicago underwritings for 1910<sup>5</sup> were also analyzed, using the same source as for the former years. It was found that almost 59 millions in corporation securities was brought out by Chicago investment houses, more than twice as much as 8 years previously, and eight times as much as the 1900 offerings.<sup>6</sup> As in 1902 the largest single issue amounted to 4 millions. Most of the issues continued to be relatively small, however, 69 per cent of them being less than one million dollars in amount. Seventy-two per cent of the public utility issues were under one million as compared with 80 per cent ten years before; and approximately two-thirds of the 43 industrial offerings were in this class. On the whole there was a tendency for the larger issues to predominate in the total number of offerings.

In 1910 the greater proportion of the issues of Chicago security houses were industrial issues; these composed more than one-half of the aggregate number—79—and amounted to 57 per cent of the total volume of flotations. Securities of public utility companies, on the other hand, made up only a little more than one-third of the 1910 issues and amounted to only 37 per cent of the total volume. Among the industrial companies which were financed a considerable number were engaged in lumbering, irrigation, and drainage projects. Although Chicago houses were expanding in the underwriting of fixed capital requirements of corporations, yet without exception the larger flotations, including practically all the railroad issues and the larger of

<sup>5</sup>Two "block" issues are not included.

<sup>6</sup>For an analysis of security issues brought out in the country as a whole for the twelve-year period beginning with 1909, see J. L. Snider, "Security Issues in the United States: 1909-20," *The Review of Economic Statistics*, Volume 111, pp. 98-102.

the public utility offerings, continued to be undertaken by Eastern firms. There was a rather marked tendency for these latter houses to establish Chicago offices; and in two or three instances their public notices gave the reader the impression that they were New York and Chicago houses.

It was not until 1918, however, that Chicago bankers underwrote their first large issue independently of Eastern houses. In that year a syndicate of five houses brought out a sixty million dollar issue of 6 per cent serial convertible gold debentures of a large meat packing company. The bankers included two trust and savings banks, two trust and savings affiliates of large national banks, and one investment security house. This is the largest *industrial* issue which Chicago firms have ever floated alone. As will be pointed out later, it was in the public utility field that the Chicago bankers gained headway very rapidly in the past decade, whereas the larger issues of railroads, industrials, and foreign governments were invariably underwritten by large New York houses as syndicate managers.

Table I also shows the public offerings of Chicago bankers for 1920; in that year a total of 128 issues was brought out by these firms, amounting to \$267,615,000. As in 1910, the securities of industrial corporations predominated, comprising almost four-fifths of the total number of flotations and aggregating \$215,190,000 in amount. These issues bulked larger in the total amount than they did ten years previously; since in 1920 the issues of industrial concerns composed a little more than 80 per cent of the aggregate and in 1910 not more than 57 per cent. The twenty-six public utility underwritings brought out by Chicago bankers in 1920 amounted to \$49,175,000. Although this was considerably more than twice their volume for 1910, they did not amount to quite 20 per cent of the total. Chicago investment houses had not yet undertaken large utility issues such as they became identified with to an increasing extent during the following decade.

It is interesting to observe that in the 1920 figures are included six bond and note issues of holding companies, aggregating more than 30 millions; five of these offerings were those of public utility holding companies. These may be said to be the forerunners of a number of very large issues of this type which were brought out by Chicago houses in the years shortly following.

There was a marked tendency by 1920 for a larger proportion of the security offerings of Chicago underwriters to consist of relatively large issues, as only 46 per cent of the 128 issues of that year were under one million dollars in amount, as compared with 69 per cent and 75 per cent in 1910 and 1900, respectively. Almost 65 per cent

of all the public utility offerings were those of one million dollars or above; in 1910 only 28 per cent had been in this class.

Nineteen hundred twenty was an abnormal year; it opened with extraordinary trade activity; the post-war boom period was carrying prices and money rates to extreme heights; and although a break in general business and prices came late in the spring, the money market continued tight throughout the year. Because of the high cost of borrowing, corporations were reluctant to commit themselves to long time indebtedness at fixed rates. Hence a large portion of the issues offered by Chicago bankers were notes of from three to five years—almost one-half of the securities representing evidences of indebtedness consisting of notes. Also by 1920 preferred stocks had come to be an important part of the offerings of Chicago bankers; in this year 31 of the 128 issues were stock offerings.

Ninety-three public offerings of securities were made by Chicago houses in 1930, and although the number of issues was considerably less than that of 1920, yet in amount they far surpassed that of ten years before (Table I). A large part of this growth in volume was due to the increase in public utility securities offered during 1930—\$375,485,000 as compared with \$49,175,000 in 1910. Of this amount, 241½ millions was in issues of utility holding companies, of which almost 200 millions represented the securities of affiliated interests. One bond issue of 60 millions, and two note issues, one, 50 millions of convertible 6's, and the other, 40 millions of serial 4½'s and 5's, made up the bulk of this latter figure. There was a considerable decline in both the number and the volume of industrial issues brought out by Chicago bankers. The year 1930 was not a favorable time for new financing even though money rates prevailed at abnormally low levels. Business activity steadily diminished as the year wore on, and a feeling of pessimism prevailed generally. Nevertheless, there were two large note issues of industrial concerns offered by Chicago investment houses, one of 55 millions and another of 30 millions, and also a 27 million dollar stock issue. Since 1920 Chicago bankers have financed the construction of business blocks and apartment houses to an increasing extent. In 1930, a year of relatively little building, these bankers publicly offered six issues of real estate mortgage bonds and one stock issue aggregating more than 1½ millions.

When the size of the issues offered in 1930 was analyzed, it was found that only 39 per cent of them were under one million dollars in amount as compared with 46 per cent in 1920 and 69 per cent in 1910. Again, the issues of the public service companies contributed

TABLE III

EXTENT TO WHICH SECURITY ISSUES OF \$5,000,000 AND MORE (EXCLUSIVE OF STATE AND MUNICIPAL)  
WERE OFFERED BY CHICAGO INVESTMENT BANKERS AND EXTENT TO WHICH THEY  
WERE PARTICIPATED IN BY OUTSIDE BANKERS, 1920 AND 1930  
(In every case the issue was originated by a Chicago banker)

Year	Total	Number of Issues Offered by Chicago Bankers Alone		Number of Issues in Which Only New York Bankers Participated with Chicago Bankers		Number of Issues in Which Bankers Outside Chicago and New York Participated		Number of Issues in Which New York Bankers and Those Outside Chicago and New York Participated	
		Less than Three Bankers	Three Bankers or More	Less than Three Outside Bankers	Three Outside Bankers or More	Less than Three Outside Bankers	Three Outside Bankers or More	Less than Three Outside Bankers	Three Outside Bankers or More
1920.....	9	2	..	5	..	2	..	..	..
1930.....	24	11	2	2	5	1	..	..	3

largely to this showing; only 28 per cent of this group of offerings were issues of less than \$1,000,000. On the other hand, almost 60 per cent of the industrial issues were in the small amount class.

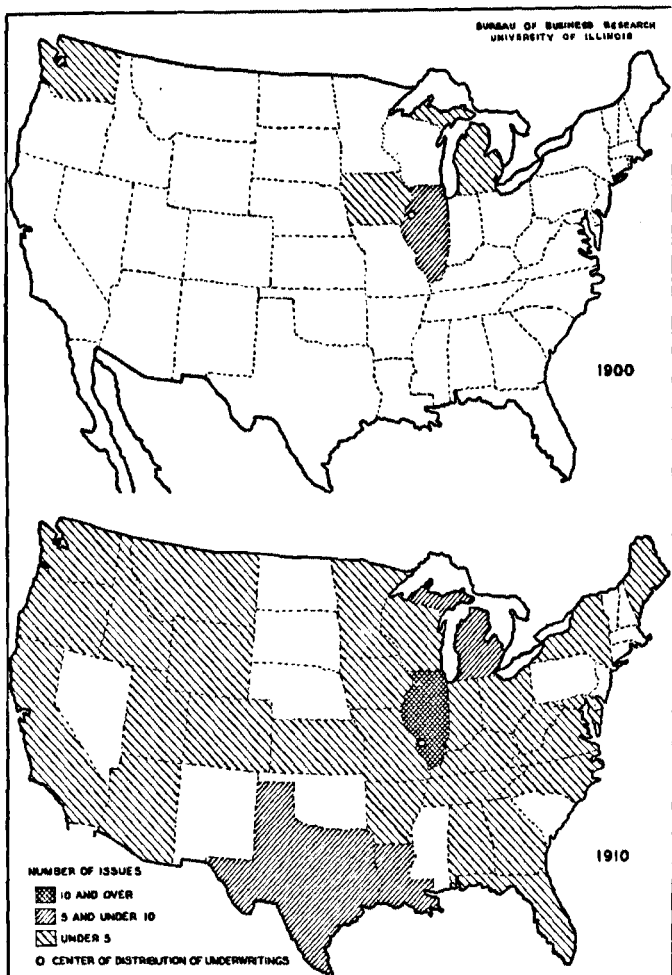
Table III shows the extent to which the relatively large security issues offered by Chicago bankers in 1920 and 1930 were brought out by these houses alone and the extent to which the offerings were participated in by outside bankers. In the earlier year 9 issues, each of \$5,000,000 or more, were offered by Chicago houses; two of these were brought out by Chicago bankers alone; New York bankers participated in five offerings, and two issues were participated in by bankers outside Chicago and New York. In 1930, 24 security issues of the same size were offered—three times the number of ten years previously. Thirteen of these—more than one-half of the total—were brought out by Chicago bankers with no outside participants, and eleven of these thirteen issues were handled by only one or two bankers. In seven issues New York houses joined syndicates headed by Chicago bankers, and in four other syndicate offerings bankers outside Chicago and New York participated.

It is clear that during the past decade Chicago bankers tended to underwrite larger security issues and also to do so independently of outside houses.

When the locations of the corporations whose securities were underwritten by Chicago bankers in the four years were studied, it was found that the area served by the Chicago securities market was enlarging.<sup>7</sup> For example, of the twelve issues offered in 1900 at least one-half were those of corporations located within approximately 175 miles of Chicago. By 1910 the same proportion—one-half—of the offerings were those of companies within approximately 450 miles of Chicago. In that year the security offerings represented issues in 32 states of the Union. In both 1920 and 1930, although there were a number of underwritings of issues of companies in states at considerable distances from Chicago, yet there was clearly a tendency for the majority to concentrate within the 450 mile radius. Evidence of this is shown when the centers of the aggregate issues for each of the four years are ascertained. These centers are indicated in Maps 1 and 2. It will be observed that the offerings in 1900 centered approximately 150 miles southwest of Chicago; by 1910, when of the 81 offerings of Chicago bankers only 16 were those of Illinois corporations, 8 were those of Texas and 6 were those of Louisiana corporations, the center had moved 260 miles from Chicago. In 1920, when almost one-half of the offerings of Chicago bankers were issues of

<sup>7</sup>See Appendix A.

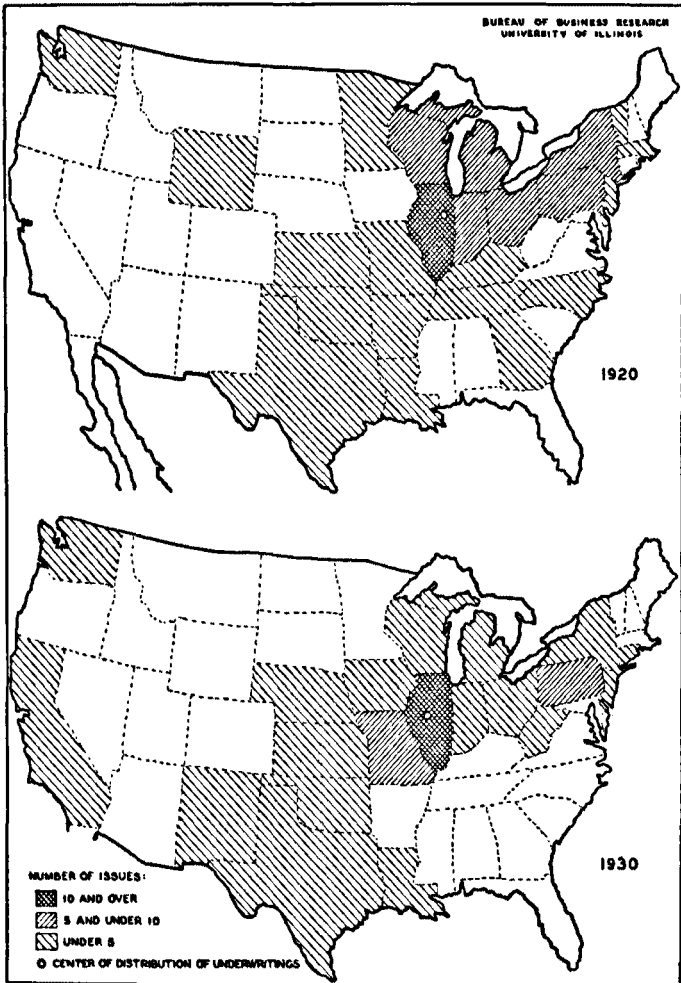




MAP 1—STATES IN WHICH SECURITY ISSUES (EXCLUSIVE OF STATE AND MUNICIPAL) WERE UNDERWRITTEN ENTIRELY BY CHICAGO INVESTMENT BANKERS OR BY SYNDICATES HEADED BY THEM; YEARS 1900 AND 1910

Illinois corporations and the issues of Eastern corporations increased to offset those in the West,<sup>8</sup> the center moved much closer to Chicago—

<sup>8</sup>In 1920, security issues of 26 corporations located in Massachusetts, New York, Ohio, and Pennsylvania were offered by Chicago bankers.



MAP 2—STATES IN WHICH SECURITY ISSUES (EXCLUSIVE OF STATE AND MUNICIPAL) WERE UNDERWRITTEN ENTIRELY BY CHICAGO INVESTMENT BANKERS OR BY SYNDICATES HEADED BY THEM; YEARS 1920 AND 1930

within less than one hundred miles. And by 1930 it was very near the geographical center of the state. The analysis of these centers points out two things: (1) the bulk of security issues offered by Chicago bankers have been those of Middle West corporations, and (2) since

1920 the invasion of Eastern territory by Chicago houses has tended to balance their activity in the West.

Although an analysis of only four years in a period of three decades furnishes a rather meager basis for reaching conclusions, nevertheless, certain inferences are readily made: (1) Previously to 1900 the security originations of Chicago bankers were very small; and it was not until the World War period that the Middle West capital market centering in Chicago came to be of first rank importance. (2) Public utilities (operating and holding companies) had by 1930 almost completely eclipsed other interests in the volume of fixed capital financing given to Chicago underwriting houses. (3) There has been a marked tendency since 1910 for an increasing proportion of the offerings of Chicago bankers to amount to a million dollars or more. (4) Since 1920 these bankers, as syndicate managers, have shown a tendency to bring out relatively large security issues with no outside participators. Furthermore, in 1930 several large-sized public utility issues were publicly offered by a single Chicago investment house. (5) The area over which the operations of Chicago bankers extend has expanded.

## II. THE ORGANIZATION OF THE CHICAGO SECURITIES MARKET

As was pointed out in the preface, the lack of uniformity in definitions of investment banking functions makes it difficult to catalog as properly as would be desired the large number of security dealers in an important banking center. Seibert's directory, *Security Dealers of North America*, lists in its mid-year 1930 edition a total of 591 names of security dealers in Chicago.<sup>9</sup> An examination of this list reveals that all firms function in some capacity as dealers in securities except brokers doing a business exclusively in commodities; for example, two grain brokers were listed that apparently executed no orders in securities; these were omitted from the analysis. The publishers of this directory classify security dealers as follows: (1) brokers, (2) dealers, (3) participating distributors, (4) underwriters, (5) originators, (6) distributors of own originations, (7) stock brokers.<sup>10</sup> A large number of the firms are indicated as having two or three functions and are consequently listed as "participating distributors and dealers" or as "originators and underwriters."

The classification of security houses according to function is shown in Table IV. The first four classes, all of which include houses designating themselves as being in a position to originate or underwrite new security issues, comprise 82 firms, only 9 of which are Chicago offices of outside houses. None of these firms indicate that they are dealers, that is, that they buy and sell securities (not new issues) either for their own account or for distribution among their clientele. It is altogether likely that practically all these houses are in a position to underwrite issues of moderate amount at least without assistance, or to participate in the underwriting of larger issues. Besides, there are two groups of firms which indicate that in addition to the functions of the classes indicated above they are also dealers. There are 161 of these, of which a little more than one-third are offices of outside houses in charge of resident managers. Among the Chicago houses in these groups (101) are to be found a number of the largest in the city, as well as many relatively small firms specializing in such issues as municipals, special assessment bonds, and real estate securities.

Furthermore, 19 "participating distributors only" are listed, and 119 "participating distributors and dealers," practically all having their

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<sup>9</sup>Published by Herbert D. Seibert and Company, New York.

<sup>10</sup>For the definition of each class see Appendix B.

TABLE IV  
CLASSIFICATION OF SECURITY HOUSES IN CHICAGO ACCORDING TO  
FUNCTION, JUNE, 1930

Type of House	Number		
	Total	Chicago Houses	Chicago Offices of Outside Houses
Total.....	589	487	102
Originators Only.....	3	3	..
Originators, Underwriters, and Participating Distributors.....	27	27	..
Originators and Distributors.....	6	6	..
Underwriters and Participating Distributors...	46	37	9
Participating Distributors Only.....	19	18	1
Originators, Underwriters, Participating Distributors, and Dealers.....	22	22	..
Underwriters, Participating Distributors, and Dealers.....	139	79	60
Participating Distributors and Dealers.....	119	111	8
Dealers Only.....	72	69	3
Brokers Only.....	116	101	15
Miscellaneous Security Houses.....	20	14	6

Source of data: H. D. Seibert and Company, *Security Dealers of North America*, mid-year 1930 edition.

home offices in Chicago. These are essentially retailers of new security offerings, receiving their allotments from the underwriting houses.<sup>11</sup> Among them are listed 18 outlying commercial banks. However, many of the 174 security houses, shown in the above table, with home offices in Chicago, designated in the Security Dealers' Directory as being in a position either to handle new security issues alone or to join with other firms in syndicate underwriting, are so restricted in their operations that they occupy a very small place in the Chicago fixed capital market. It was found that there were 115 Chicago security houses that brought out new issues (exclusive of state, municipal, and real estate issues) either alone or as heads of syndicates from 1925 through 1928.<sup>12</sup> But since 1928, 34 of these firms have gone out of business; and 82 of the 115 houses did not bring out, either alone or in primary syndicate position, a single issue of as much as \$2,000,000. During this period from 1925 to 1928 only 12 firms handled without assistance issues of \$2,000,000 or more; 11 of these firms are still in existence and 8 of them now handle the great bulk

<sup>11</sup>These participating distributors function as members of selling syndicates; ordinarily they are called "dealers," but, as indicated above, a distinction is made between "distributors" and "dealers" in the directory referred to.

<sup>12</sup>*American Underwriting Houses and Their Issues.*

of originations in the Chicago market. It is to be noted that there are no investment bankers in Chicago doing an exclusively wholesale business, and that there are only 2 of this type in New York.

There are 69 security houses with home offices in Chicago that function as dealers only, that is, they do not regularly participate as retailers in the allotment of new issues, but buy and sell securities both for their own account and for their customers. A number of outlying banks with bond departments are included in this group. Security brokers are factors in the fixed capital market, although they, as such, carry on no underwriting function. There are 116 of these brokers in the city and all except 15 are Chicago firms.<sup>13</sup> In addition to brokerage houses, approximately 75 security dealers have trading departments.

A considerable portion of the Chicago houses function in some specialized capacity; the following tabulation comprises all the firms of whatever nature which designate one or more specialties:

<i>Specialty of Security House</i>	<i>Number of Houses</i>
Lumber and paper securities.....	3
Bank stocks.....	9
Special assessment securities.....	12
Municipal bonds.....	20
Public utility securities.....	27
Real estate bonds.....	49
All others.....	31

Appendix D presents the classifications of security houses in New York and Chicago in parallel columns for the purpose of comparison. The number of these firms (including branches of outside houses) in our primary money market aggregates 2,532 as compared with 589 in Chicago. Thus Chicago has less than one-fourth as many as New York. As was indicated, there are 174 firms in Chicago (home offices) that are shown to be in a position to bring out new security issues alone or to join with others in underwriting syndicates. The corresponding number of this class of security houses in New York is 470; Chicago has only 37 per cent of the number possessed by New York. It is in the number of dealers and brokers, however, that the latter far outstrips Chicago—dealers and brokerage houses in Chicago amount to only 13 per cent of the number in New York. That these firms bulk large in the aggregate number of New York security houses is seen in the fact that they comprise 57 per cent of the total, whereas in Chicago not quite one-third of all the houses are dealers and brokers. It is possible that in the course of time, with the development of the

<sup>13</sup>Thirty-one floor brokers are included in the total.

stock exchanges in Chicago, the relative position of brokerage houses in that city will tend to approximate that in New York.

It is interesting to observe the number of branches of outside firms among the Chicago and New York security houses. In the former money market 17 per cent of the firms are branches of houses with home offices located in other cities; offices of outside firms in New York constitute not quite 7 per cent of the total. This, of course, follows from the fact that there is always a tendency for banking houses in the older established markets to open offices in newer and rapidly developing regions, rather than for security firms in the latter to invade the more highly organized markets.<sup>14</sup>

It was pointed out above that 115 security houses with home offices in Chicago handled alone or as syndicate leaders new corporate issues during the period from 1925 to 1928. In those years there were 305 New York firms in a corresponding position. On this basis New York has almost three times as many underwriters as Chicago; this relative position of New York and Chicago houses, it will be noted, is substantiated, also, when the 470 firms in New York that are indicated, in the directory above referred to, to be in a position to underwrite issues in some capacity are compared with the same group in Chicago, which numbers 174.

The extent to which large commercial banks in our important financial centers have organized affiliated security companies, or have expanded the operations of those already established, has been one of the most notable developments in banking during recent years.<sup>15</sup> There are four banks in Chicago, all large downtown institutions, which have security affiliates.<sup>16</sup> Each of these, except one, within the past two or three years has been a party to merger proceedings, and the enlargement of activities and resources which consolidation brings is reflected in the size and operations of the affiliates. The largest of these investment houses owned by the stockholders of commercial banks is capital-

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<sup>14</sup>Of the 102 branches of outside firms in Chicago, 64 are those of New York houses. There are 35 branches of Chicago firms in New York—one-fifth of all the branches of outside houses there.

<sup>15</sup>For an account of the rapid increase in the volume of originations and participations of bank affiliates since 1927 see *The Commercial and Financial Chronicle*, Vol. 132, pp. 1735-6, March 7, 1931.

<sup>16</sup>There is included here a national bank which was organized in 1928, sponsored by a large firm of investment bankers long identified with New York and Chicago underwriting. In a strict sense, this bank cannot be said to have an investment affiliate although the interests back of the bank and the underwriting house are identical.

The figures in this paragraph have been brought down to date—October, 1931. Bank failures, mergers, etc., since the beginning of this study have materially reduced the number of all banks, including those under discussion in this paragraph.

ized at 20 millions. A further aspect of the tendency of national banks to departmentalize under a separate corporate name is that of the organization of a state-chartered institution to carry on the savings deposits and trust operations. In all, 25 Chicago banks, most of them located in the outlying districts of the city are reported to have bond departments and to function as dealers in securities or participating distributors, or both. This, of course, is in addition to the considerable number of banks having ordinary bond departments.

Without ample commercial banking connections any expansion of the market providing for fixed capital requirements is impossible. The cornerstone of the entire Chicago financial market is the commercial banks of the city. The huge increase in the resources of these institutions has paved the way for the growth of investment banking there. Not only have banking resources increased in the aggregate, but through a number of mergers involving some of Chicago's largest banks individual institutions find themselves in a position to handle singly loans of larger and larger amounts.<sup>17</sup> In other words, they have bettered their capacity to meet the requirements of underwriters.

Practically every large security house in the country has an office in Chicago which is numbered among the 102 branches shown in Table IV. The home offices of these firms in 78 instances indicated that they were in a position to handle new issues alone or as members of a syndicate. It is to be noted that of these 78 branches, 47 are of New York firms, and of this number, 36 brought out new issues during the period from 1925 through 1928, thus indicating their importance as underwriters.

Chart 1 shows the organization of the Chicago securities market. In any fixed capital market the stock exchange of necessity plays an outstanding part, constituting, as it does, the most important secondary or resale market for securities; and a most notable progress during recent years has been made by the Chicago Stock Exchange. The following tabulation shows the volume of shares of stock (in thousands) sold on the Exchange during the past four years, and also the bond sales (in thousands, par amount).

	<i>Stocks</i>	<i>Bonds</i>
1927.....	10,713	\$14,828
1928.....	38,942	7,535
1929.....	82,216	4,975
1930.....	69,747	27,462

A total of 524 corporations list their securities on the Chicago Ex-

<sup>17</sup>For an analysis of deposits held by Chicago banks, and of the capital stock of these banks, see Bulletins Nos. 21 and 24, Bureau of Business Research, University of Illinois.



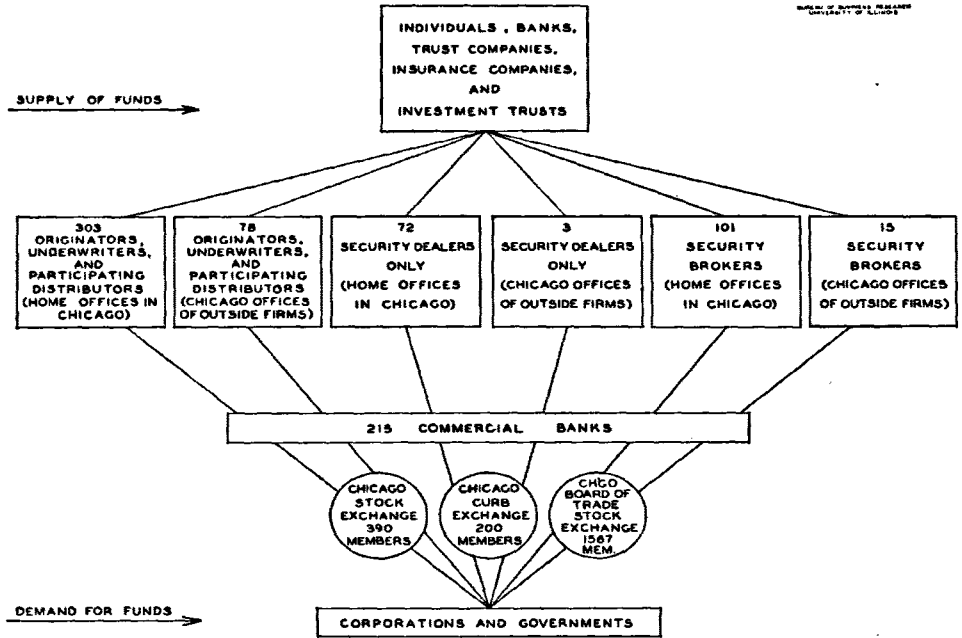


CHART 1—ORGANIZATION OF THE CHICAGO SECURITIES MARKET; JULY, 1930  
(Figures for Chicago Stock Exchange membership are as of December, 1930)

TABLE V  
NUMBER OF BRANCH OFFICES OF CHICAGO SECURITY HOUSES BY  
GROUPS, NOVEMBER, 1930

Number of Offices (Outside Chicago)	Security Houses Reporting Branches	
	Number	Percentage of Total
Total.....	78	100.0
10 and Over.....	10	12.8
8 and Under 10.....	3	3.8
6 and Under 8.....	4	5.1
4 and Under 6.....	9	11.5
2 and Under 4.....	25	32.1
1.....	27	34.7

change.<sup>18</sup> This exchange, organized in 1882 and the largest in this country outside New York, has a total membership (end of 1930) of 390.<sup>19</sup>

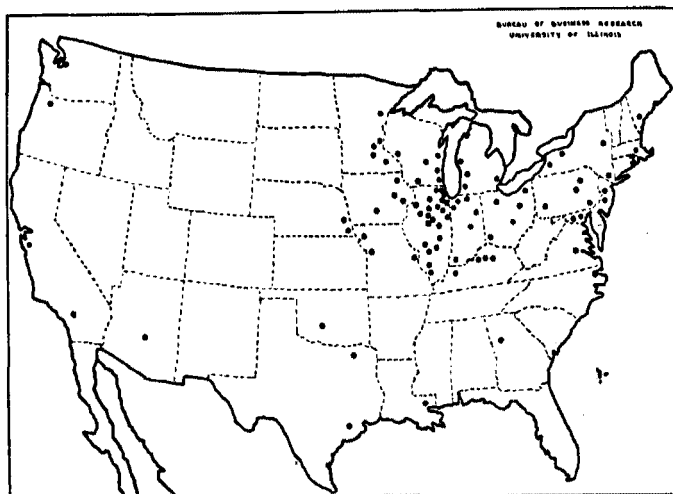
The Chicago Curb Exchange, which opened for business in the spring of 1928, had at the close of 1930 a total of 168 issues listed for trading; the volume of stock sales during 1930 aggregated 6,047,935 shares. The bond list included 20 issues, and sales in 1930 amounted to \$2,538,200. The most recently established securities market in Chicago is that of the Board of Trade; this exchange opened for trading in September, 1929. During 1930, its first full year of operations, trading in stocks reached a total of 1,466,185 shares. At the close of the year there were 39 issues listed. There were only two listings of bonds traded in.

An indication of the expanding area over which Chicago investment bankers carry on their operations is the number of offices which these houses have established in cities outside Chicago. It was found through questionnaires, supplemented by security house directories, that 78 Chicago bankers maintain branches in other cities.<sup>20</sup> In addition a large number of these firms have representatives in various parts of the country. Table V shows the extent to which branch offices have been opened by Chicago houses; ten bankers report that they have established at least 10 offices each, and one of them has 19 located in strategic cities from New York to San Francisco; an-

<sup>18</sup>For an account of the recent activity of the Chicago Stock Exchange see *The Commercial and Financial Chronicle*, Vol. 132, p. 738, January 31, 1931.

<sup>19</sup>The first stock exchange in Chicago was opened as early as 1865. See *The Chicago Stock Exchange* by Wallace Rice, published by the Committee on Library of the Chicago Stock Exchange, 1923.

<sup>20</sup>As of November, 1930. Brokerage houses are not included.



MAP 3—CITIES IN WHICH BRANCH OFFICES OF CHICAGO SECURITY HOUSES ARE LOCATED; NOVEMBER, 1930

other reports 15 offices widely scattered; and still another only one less, covering a very wide territory. Sixteen Chicago firms have from 4 to 10 offices each; a number of these bankers, particularly those reporting 7, 8, or 9 offices, cover practically the entire Middle West.

Twenty-five firms—nearly one-third of all the Chicago houses reporting outside branches—have two or three, and these are located for the most part in Illinois or in states adjacent to Illinois, except in the case of several large bankers which report one office in the East, another in the Middle West outside Chicago, as in St. Louis or Kansas City, and a third on the Pacific coast.

Map 3 shows the location of all the cities in the United States in which one or more Chicago bankers have established offices. It will be observed that although the great majority of these localities are in the middle western states, at least 12 are in the East, 11 in the southern states, and 4 on the Pacific coast. Chicago security houses maintain offices in 87 cities.

Thirty-five offices of Chicago firms are found in New York, a greater number than in any other city (Appendix C). The extent to which these firms have reached into districts outside the Middle West is to be seen from the fact that they have 18 offices in California; 9 in the extreme Northwest; and 14 in Pennsylvania. Chicago houses,

however, have not invaded New England to a large extent, having only 7 offices located there. And in the entire southeastern region, south of Kentucky and Virginia and east of Texas and Oklahoma, there is practically no representation.<sup>21</sup> Outside New York it has been in Milwaukee, Minneapolis, St. Louis, and Kansas City that Chicago firms have most completely established themselves; in these cities there is a total of 84 branches, and they comprise 27 per cent of the aggregate (311) throughout the country.

To extend their facilities and to coordinate main office and branch activities effectively, 15 Chicago bankers have provided their own wire systems; these have branches in the aggregate of 97 outside Chicago. In addition there are 18 firms that use leased wires of other houses, and by this means connections are had with their 35 branch offices throughout the country.

In addition to the cities in which offices are regularly maintained by Chicago security houses, there are numerous other cities in which they have representatives. These latter number approximately 390, comprising, of course, the smaller cities and towns, chiefly in the Middle West. One firm specializing in real estate mortgage securities reports 65 cities in which it has representatives; another doing a general investment banking business indicates that there are 80 cities in which it is represented in addition to 2 cities in which offices have been established. A large underwriter specializing in public utility issues reports not only branches in 11 cities but also representatives in 51 cities. One-half of the houses were found to have representatives in from 1 to 5 cities each.

Chicago security houses have played an important part in the Investment Bankers Association of America since its organization. This Association, founded in 1912, had for its first president and its first secretary Chicago bankers.<sup>22</sup> Its executive offices were opened in Chicago and have remained there from the beginning. Evidence of the activity of members of Chicago firms in the work of the Association is seen in the fact that in every year since its organization there have been at least two Chicago men among its officials. The 1929-1930 officers and governors included three representatives of Chicago banking

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<sup>21</sup>It is interesting to observe that it is in this territory and in New England that the number of correspondents of Chicago's commercial banks is also very small. See Bulletin No. 21, Bureau of Business Research, University of Illinois, p. 14.

<sup>22</sup>It is interesting to note that in 1910 at a meeting of representatives of bond houses in Chicago the matter of a country-wide organization was discussed. It was thought that it might be made a section of the American Bankers Association, but the fact that this body does not recognize private bankers among its officers precluded this possibility.

houses and two representatives of New York firms with offices in Chicago; one of these was a resident partner and the other a district manager.

At the time of the organization of the Investment Bankers Association there were 52 bankers with home offices in Chicago who became charter members; in addition there were 13 offices of outside houses in the city that entered the membership. Considering strictly Chicago houses (those with main offices there) the peak of their membership in the Association was reached in 1926 when 78 of them were members.<sup>23</sup> Early in 1930 the number was 75. Since 1925 there has been a tendency for the Chicago offices of outside investment bankers to bulk larger in the total membership accredited to Chicago; thus the 1930 figures show that more than one-half—52 per cent—of the Chicago members represented offices of outside firms. This is an aspect of the tendency for the largest houses in the country to establish offices in Chicago; in 1912 there were 13 of these branches which were members of the Association; by 1930 this number had grown to 71. The aggregate Chicago membership (including branches of outside firms) in the latter year comprised 7 per cent of the total number of members. Nineteen hundred thirteen was the peak in the relative position of Chicago members in the Association when they composed one-fifth of the total membership. This decline has not been due to a falling off in the number of members from Chicago but rather to a very notable increase in the membership from other cities; a very large number of new members has been added from New York, Pennsylvania, and California.

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<sup>23</sup>There were likewise 78 for the two following years.

### III. AN ANALYSIS OF SECURITIES OFFERED BY CHICAGO UNDERWRITERS, 1921-1930 INCLUSIVE

It is the purpose in this section to analyze the security issues brought out by investment bankers in Chicago in the past decade, as to volume of underwritings, type of industry financed, and size of issues.

In the foregoing pages the volume of Chicago underwritings at ten-year intervals since 1900 was considered. Here the analysis is taken up for the years 1921 through 1930 with particular reference to the period of 1925 to 1928 inclusive.

The decade of the 1920's was one of notable expansion in corporate financing. The volume of security issues offered in the United States amounted to 2,770 millions during 1921; for the year 1929 the enormous figure of 10,095 millions was reached (Table VI).<sup>24</sup> Recovery from the business depression of 1920 and 1921 was rapid, and 1922 showed an increase of almost 27 per cent over the security flotations of the year before. In each succeeding year except one (up to 1930) the aggregate offerings exceeded those of the previous year by from 5 per cent to nearly 40 per cent. After 1926 an exceptional movement in security issues took place. From early 1928 until the autumn of the following year, business generally made a notable advance and a stock market activity of unprecedented volume gained momentum, only to culminate in the collapse of October and November, 1929. During the three years from 1927 through 1929 a total of more than 26½ billions of securities was brought out by investment bankers throughout the United States. The extent to which Chicago houses handled these security flotations is to be observed in Tables VI and VII.<sup>25</sup>

#### Originations

Security issues originated by Chicago underwriters amounted to 162 millions in 1921, a total much less than that of the preceding year.

<sup>24</sup>It is to be noted that refunding issues are included as well as those representing new capital. Likewise foreign government issues are included, but not those of states or municipalities; the latter are treated separately. Farm loan offerings, relatively small in amount, are excluded.

<sup>25</sup>The data for security issues covered in this section were collected from two sources: (1) *The Commercial and Financial Chronicle* for the ten-year period as a whole, 1921-1930 inclusive; and (2) *American Underwriting Houses and Their Issues* (National Statistical Service, 1928) for the four years 1925-1928 inclusive. It is to be noted that figures shown here do not include state and municipal issues.

TABLE VI  
SECURITY ISSUES (EXCLUSIVE OF STATE AND MUNICIPAL) OFFERED IN THE ENTIRE  
UNITED STATES AND BY CHICAGO INVESTMENT BANKERS; YEARS 1921-1930  
(Amounts in 000's)

Year	Issues Offered in the Entire United States	Offered by Chicago Bankers		
		Total	Origina- tions	Issues Partic- ipated In
1921.....	\$2,770,178	\$1,015,162	\$162,091	\$ 853,071
1922.....	3,504,587	927,924	395,941	531,983
1923.....	3,475,685	915,093	279,733	635,360
1924.....	4,616,576	1,265,810	357,228	908,582
1925.....	5,382,991	1,396,208	532,410	863,798
1926.....	5,813,678	1,751,662	688,312	1,063,350
1927.....	8,096,321	2,426,511	932,024	1,494,487
1928.....	8,468,997	2,147,128	846,035	1,301,093
1929.....	10,094,611	1,767,602	915,052	852,550
1930.....	5,955,165	1,927,383	554,758	1,372,625

Source of data: *The Commercial and Financial Chronicle*.

There are no duplications in "Issues Participated In," that is, even though a given issue is participated in by a number of houses the issue is counted in the aggregate only once.

TABLE VII  
PERCENTAGES OF THE VOLUME OF SECURITY ISSUES (EXCLUSIVE OF STATE AND MU-  
NICIPAL) OFFERED BY CHICAGO INVESTMENT BANKERS TO THE TOTAL VOLUME  
OF SECURITY OFFERINGS IN THE UNITED STATES; YEARS 1921-1930

Year	Offered by Chicago Bankers		
	Total	Origina- tions	Issues Partic- ipated In
1921.....	36.7	5.9	30.8
1922.....	26.5	11.3	15.2
1923.....	26.3	8.0	18.3
1924.....	27.4	7.7	19.7
1925.....	25.9	9.9	16.0
1926.....	30.1	11.8	18.3
1927.....	30.0	11.5	18.5
1928.....	25.4	10.0	15.4
1929.....	17.5	9.1	8.4
1930.....	32.3	9.3	23.0

See note to Table VI.

With business recovery under way, however, in 1922, a marked expansion took place, followed by another decline in 1923. Though there was no consistent movement in the flotations handled by Chicago houses during the decade under review, each year from 1923 through 1927 showed a very considerable gain over the preceding one. In the latter year 932 millions in securities was brought out by Chicago houses alone or by syndicates managed by them. The course taken by Chicago

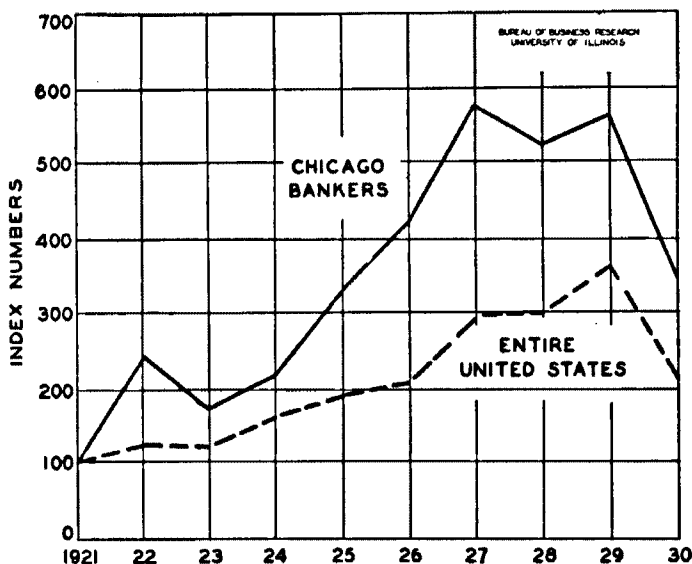


CHART 2—INDEXES OF THE VOLUME OF SECURITY ORIGINATIONS OF CHICAGO INVESTMENT BANKERS AND THOSE OF THE ENTIRE UNITED STATES; 1921-1930 (1921 = 100)

security underwritings and that of the issues for the entire United States are to be observed in Chart 2. The figures for 1921 are used as the bases in computing the index numbers. The large aggregate flotations for Chicago in each of the years 1927, 1928, and 1929 showed increases over those of 1921 of 475 per cent, 422 per cent, and 464 per cent, respectively.

When the security issues brought out by Chicago houses are compared with those originated by firms throughout the entire country (as shown in Chart 2) two significant things are noted: (1) The relative increase in volume of issues over that of 1921 has been consistently greater in the case of Chicago than in that of the country as a whole, and notably so from 1924 through 1927. For 1924 the index of the Chicago house originations based on the 1921 total was 220, and that for those of the entire country was 167; by 1927 the index of the former stood at 575 while that for the United States as a whole was only 292.<sup>26</sup> (2) The volume of security flotations originated by bankers

<sup>26</sup>Although, as indicated in the preface, security issue figures are somewhat incomplete, there is no reason to believe that data for the entire United States are any less adequate than those for Chicago. It is more likely that the Chicago



in Chicago tended to follow the same general course as that for the United States as a whole. Both were fairly consistent with general business conditions.<sup>27</sup> After the recession of 1924 business activity moved forward briskly, and until the autumn of 1929 it remained on a relatively high level. During these years business units were expanded; a spirit of optimism prevailed; there was a marked increase in bank credit; large numbers of investment trusts were organized and financed; and an unprecedented stock market boom gained headway. Security flotations mounted rapidly, those of the country as a whole reaching their peak in 1929. Issues originated by Chicago underwriters had reached their maximum for the period two years earlier, although their 1929 flotations aggregated almost the total of 1927. With the business depression setting in during the last quarter of 1929 and continuing unabated throughout 1930, new security offerings registered a sharp falling off.

### Participations

Table VI also shows the volume of security issues in which Chicago bankers were participators, that is, offerings issued by syndicates the managers of which were investment banking houses located outside Chicago and in which Chicago firms shared in the underwriting.<sup>28</sup> Of course, originations indicate the strength of a money market far more accurately than participation figures, such as are shown in the table. This does not imply that participations in flotations originated by outside firms do not reflect the financial resources of a market. But origination is more significant in this regard than merely sharing in underwritings. That is, there is no way of telling the *extent* to which a Chicago firm participates in a given issue—this information is not given in any published source. The participation of a Chicago house

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totals are underrated, since in many instances the location of the underwriting houses was not shown in the source; this difficulty, however, was overcome as far as possible by careful checking with directories.

*The Commercial and Financial Chronicle*, the source of the data used in the above analysis, has in all probability tended to understate somewhat the volume of security issues. This source has sought not to exaggerate figures. "While we aim to make our statements very comprehensive, we mean nevertheless to guard against swelling the totals beyond their true magnitude . . . . Minor issues, of course, have to be ignored, since otherwise the task would be altogether too stupendous, and further the sources of information for the purpose are lacking." *The Commercial and Financial Chronicle*, Vol. 112, p. 1216.

"The same conclusion is to be reached when the movement of general business is compared with the volume of security issues as shown in "Security Issues in the United States: 1909-20," *The Review of Economic Statistics*, Volume III, p. 98.

<sup>28</sup>The term "participators" here indicates those investment houses that are members of a buying syndicate; they function as underwriters and not simply as retailers of securities. See footnote, p. 20.

in a security offering may be small and yet the entire amount of the issue is of necessity classed as a participation.

The volume of issues participated in by bankers in Chicago does not show the same relative gain during the decade under study as that of originations. However, from approximately 532 millions in issues participated in during 1922, each year except 1925 revealed an advance over the previous one until the peak of almost 1½ billions was reached in 1927. Then a decline followed—issues participated in amounting to only 853 millions during 1929; in 1930, however, there was an enormous increase in participations, the expansion amounting in round numbers to one-half billion.

Security underwritings brought out by outside bankers and participated in by investment houses in Chicago have been for the most part very large issues of public utility companies and foreign governments, and industrials. In the four-year period from 1925 through 1928 Chicago bankers thus participated in sixty public utility issues each of which was at least 10 millions in amount; the aggregate reached almost \$1,300,000,000. There were 39 foreign government issues of the same minimum size; these amounted to more than \$1,075,000,000. Among these were one flotation of 100 millions and three of 50 millions each. Such underwritings are almost invariably originated by New York bankers. There were practically the same number of large industrial issues—40—and they amounted to approximately 940 millions. The large railroad security offerings, practically all of which are managed by financial houses in the East, are rarely participated in by Chicago firms. For example, of the 817 millions in railroad securities offered in 1929 less than 10 per cent was participated in by bankers in Chicago.

The very marked falling off in the issues participated in by Chicago houses in 1929 is worthy of note. This decline from the preceding year amounted to 448 millions. In the three years from 1928 through 1930 the following capital flotations originated by houses outside Chicago were participated in by Chicago bankers:

	1928	1929	1930
Public Utilities.....	\$ 664,468,000	\$439,932,000	\$ 548,062,000
Foreign Government.....	288,396,000	32,500,000	429,186,000
Industrials.....	249,439,000	181,408,000	298,822,000
Investment Trusts.....	53,040,000	120,935,000	3,375,000
Railroads.....	45,750,000	77,775,000	93,180,000
Total.....	<u>\$1,301,093,000</u>	<u>\$852,550,000</u>	<u>\$1,372,625,000</u>

Two or three tendencies in Chicago underwritings explain the 1929 decline in participations and also point to possible develop-

ments in the future. By 1928 foreign government issues had come to have a very important place in the flotations participated in by Chicago investment houses. In that year these firms joined with syndicates managed by outside houses in underwriting approximately 45 per cent of the total volume of foreign government issues. But these issues, which had averaged the huge total of almost 675 millions each year since 1924, fell in 1929 to less than 70 millions. This largely accounts for the falling off in Chicago participations during that year. Another important aspect of Chicago house participations is that of the investment trust issues. Investment trusts had a phenomenal rise during the latter half of the last decade. Bankers in Chicago have had very little part in underwriting issues of this type managed by outside security houses. Yet an increasing proportion of the total security flotations from 1926 through 1929 for the country as a whole consisted of such issues. This may be observed from the following tabulation of investment trust issues for the last five years.<sup>29</sup>

1926.....	\$ 71,100,000
1927.....	174,907,000
1928.....	790,671,000
1929.....	2,223,731,000
1930.....	232,737,000

Although these figures include the new capital of "trading, holding, etc.," companies, a very large portion, particularly in 1928 and 1929, was composed of issues of investment trusts. Chicago's participation in these latter flotations was very small, and this fact may furnish another reason for her low aggregate participations. The amount of public utility issues originated by outside houses and participated in by Chicago bankers was 225 millions less in 1929 than in the preceding year, notwithstanding the fact that the aggregate volume of public utility offerings in the country as a whole was very little less in 1929 than in 1928. This falling off of Chicago participations in public utility securities of 33 per cent in a single year is not easy to explain. It is true that the originations of Chicago houses were relatively high in 1929, but they did not reach the 1927 figures, and participations were 600 millions greater in 1927 than in 1929.

In 1930 there occurred a rapid recovery in the participations of Chicago bankers, particularly in the case of foreign government issues. These houses shared in practically every large foreign offering. Notable gains were also made in the sharing of public utility flotations and in that of industrial issues. These facts indicate that Chicago is definitely established as an outstanding market for public utility securities.

<sup>29</sup>*The Commercial and Financial Chronicle*, Volume 132, p. 383.

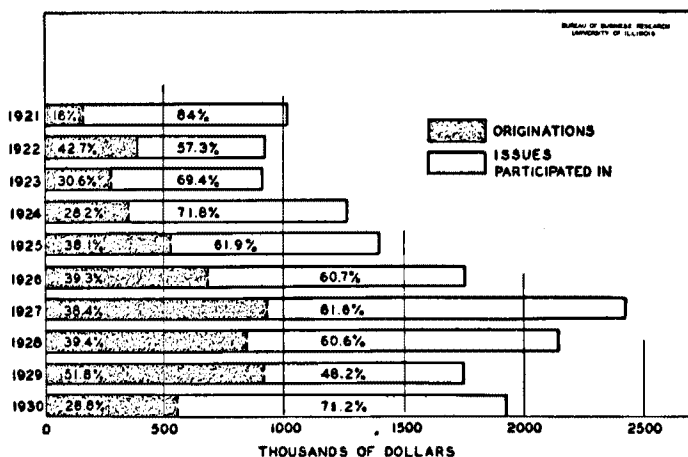


CHART 3—SECURITY ISSUES OFFERED BY CHICAGO INVESTMENT BANKERS  
CLASSIFIED AS ORIGINATIONS AND PARTICIPATIONS; 1921-1930  
(IN THOUSANDS OF DOLLARS)

### Total Volume

The volume of originations together with the amount of issues participated in by houses in Chicago gives the total volume of new flotations with which these firms were identified as underwriters. These amounts for the years studied are shown graphically in Chart 3. It will be observed that there is no definite tendency in the proportion of originations to the aggregate. The proportion of originations to the total was least in 1921 with 16 per cent of the aggregate, and greatest in 1929 with 51.8 per cent. During the years from 1925 through 1928, when the volume of security offerings of Chicago houses was the largest in the history of the money market, the issues managed by these firms maintained a fairly stable relative position of approximately 39 per cent of the total Chicago offerings.

The extent to which investment bankers in Chicago had a part in underwriting the total volume of securities of the entire country is shown in Table VII. This tabulation of percentages is based on Table VI. It will be observed that the total security flotations originated by Chicago houses have tended to maintain very much the same proportion of the aggregate for the entire country since 1925, varying within the narrow range of from 9.1 per cent to 11.8 per cent, with an average of 10.3 per cent. During the past six years, therefore, Chicago financial houses handled alone or as syndicate managers \$10 of every \$100 of new capital flotations. Originations of Chicago houses averaged

8.6 per cent of the country's total security offerings during the first half of the past decade as compared with 10.3 per cent during the last five years of the decade. It must be noted that the volume of issues offered in the entire United States, the figures for which are shown in the first column of Table VI, includes offerings made directly by companies to their stockholders without the employment of investment bankers. Therefore, the position of the bankers in Chicago in this respect relative to financial houses in the country as a whole was actually greater than these percentages indicate.<sup>80</sup>

The issues managed by outside bankers but participated in by those in Chicago ranged from a high position of 30.8 per cent of the aggregate capital flotations of the United States in 1921 to a low of 8.4 per cent in 1929. From 1923 through 1927 the variation in the relative position of Chicago's participations was small—a range of less than 4 per cent. In the first half of the decade Chicago bankers shared as participators in an average of one-fifth of the country's total flotations; the average in the latter half was less—16.7 per cent.

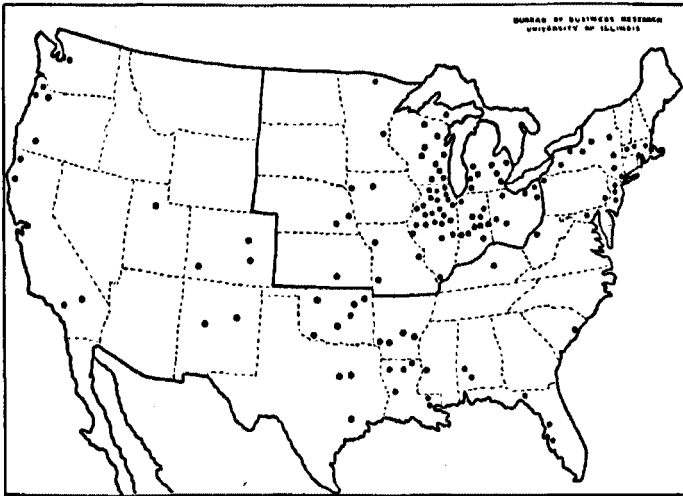
The first column of Table VII shows the percentages of the total security issues (both originations and participations) of Chicago houses to the aggregate for the country as a whole. In 1930 bankers in Chicago were identified with almost one-third of the country's aggregate offerings. The average for Chicago houses during the latter half of the decade was approximately 27 per cent; for the first five years it was very little higher—28.6 per cent.

Map 4 shows the locations of corporations for which Chicago bankers, as originators, handled security issues during the four years from 1925 through 1928. There were 129 cities in all. Although it will be observed that a large portion of them are found in the territory designated as the Middle West—53 per cent—and one-third within 200 miles of Chicago, the state of New York is represented with 9 cities, and Oklahoma and Louisiana with 6 cities each. Chicago houses also underwrote issues in 9 Pacific Coast centers.

<sup>80</sup>The significance of this fact is seen when an analysis of the data is made for a single year—1929. A check-up reveals that during that year 31 per cent of all the security flotations of the entire country were made by the issuing corporations without the operations of the investment banker. By far the greatest volume was that of stock offerings made directly to the corporations' shareholders:

Offered by company to stockholders.....	\$3,068,284,000
Placed privately.....	29,623,000
Purchased by organizers of company.....	23,378,000
Otherwise disposed of.....	10,000,000
	<u>\$3,131,285,000</u>

Of the aggregate security flotations of the entire country for 1929, amounting to \$10,094,611,000, there was therefore handled by investment bankers of the United States \$6,963,326,000, 13 per cent of which was originated by Chicago investment houses.



MAP 4—LOCATION OF CORPORATIONS FOR WHICH CHICAGO INVESTMENT BANKERS UNDERWROTE SECURITY ISSUES; 1925-1928 INCLUSIVE

### Bond and Stock Issues

The majority of the security offerings handled by Chicago financial houses either alone or in primary syndicate position have been bond issues.<sup>31</sup> From 1921 through 1927 the volume of bond flotations by Chicago investment bankers was above 90 per cent of the total of both bond and stock issues (Table VIII). In 1928 it dropped to 88 per cent of the aggregate, and in the year following to 45 per cent. Of the total volume of securities originated by Chicago bankers in 1929, amounting to \$915,052,000, \$504,493,000 was in stock issues. This popularity of stocks reflected a situation which was general throughout the country; during 1928 and 1929 (until October) their prices mounted rapidly and they gained in public favor over bonds. In 1930 bond flotations regained somewhat their former relative position when they constituted 80 per cent of the aggregate Chicago offerings.

A large factor in determining the type of security to be issued is the market demand. The condition of the money market during these two years did not favor the issuance of bonds, but stocks were readily disposed of. Common stocks were particularly strong. Even the important bond issues which were marketed in 1929 usually possessed convertible features which enabled the holder to acquire equity stocks if

<sup>31</sup>"Bond issues" in this analysis includes all evidences of indebtedness such as notes and equipment trust certificates.

TABLE VIII

PERCENTAGES OF THE VOLUME OF BOND ISSUES TO TOTAL BOND AND STOCK ISSUES  
(EXCLUSIVE OF STATE AND MUNICIPAL) OFFERED IN THE ENTIRE UNITED  
STATES AND BY CHICAGO INVESTMENT BANKERS (ORIGINATIONS);  
YEARS 1921-1930

Year	Entire United States	Chicago	Year	Entire United States	Chicago
1921.....	90	100	1926.....	77	92
1922.....	82	98	1927.....	78	95
1923.....	79	91	1928.....	57	88
1924.....	81	91	1929.....	31	45
1925.....	76	93	1930.....	74	80

he chose. Stock issues were very materially augmented by enormous issues of newly created investment trusts. In 1929 issues of these companies accounted for almost one-half of the stock offerings originated by Chicago bankers.

Table VIII shows a rather marked tendency for bonds handled by Chicago investment houses to occupy a higher relative position than those offered in the country as a whole. In the first half of the last decade the greatest difference occurred in 1925 when the volume of bond offerings in the entire United States constituted only 76 per cent of the aggregate security flotations as compared with 93 per cent in the case of Chicago underwritings. In 1928 also there was a marked difference when the relative positions were 57 per cent and 88 per cent, respectively. It is clear that the popularity of stock issues manifested itself a little earlier, as well as to a greater extent, in the country's security flotations than in those of the Chicago bankers. In this connection it must be remembered that in the security offerings of the entire United States are included those offerings of corporations that are made directly to the shareholders and that practically all of these are stock issues. This fact accounts in large measure for the discrepancy between the flotations in the country as a whole and those of investment houses in Chicago as to the relative position of bond issues.

Nevertheless, when an analysis of data from another source (for a four-year period; see Appendix F) was made, which included issues brought out by investment houses in the entire United States, it was found again that bonds had a larger place in the underwritings of Chicago bankers than in those of the country as a whole. A comparison of the types of securities underwritten by investment bankers in Chicago from 1925 through 1928 with those brought out by New York houses in the same period showed that the latter underwrote a con-

TABLE IX  
 PERCENTAGES OF THE NUMBER OF BOND ISSUES (EXCLUSIVE OF STATE AND MUNICIPAL) TO THE TOTAL NUMBER OF SECURITY ISSUES OFFERED BY CHICAGO INVESTMENT BANKERS; YEARS 1921-1930

Year	Percentage	Year	Percentage
1921.....	100	1926.....	95
1922.....	98	1927.....	94
1923.....	90	1928.....	87
1924.....	94	1929.....	73
1925.....	95	1930.....	83

Source of data: *The Commercial and Financial Chronicle*.

siderably smaller proportion of bonds. Bonds brought out by the Chicago houses averaged during these four years 10 per cent more relative to the entire volume originated than those brought out by the New York bankers.<sup>32</sup>

#### Number of Issues

The percentages of the *number* of bond issues to the total number of offerings of both stocks and bonds for the Chicago houses show much the same tendency during the last decade as the percentages of the volume of bond flotations (Table IX). Until 1928 the number of bond issues composed at least 90 per cent of the total number of flotations and averaged 95 per cent. In 1928 and 1929 the relative position of bond offerings declined, reflecting the growing interest in stocks.

#### Public Utilities and Industrials

When the aggregate originations of Chicago investment bankers were analyzed as to type of business financed, a number of noteworthy tendencies became evident (Tables X and XI). Since 1923, with the exception of 1925, the underwriting of public utility issues has bulked larger than that of any other type of enterprise. And in four years of the last decade public utility securities comprised more than one-half of the total flotations. Although it is difficult to discern a definite tendency from year to year in the relative position of public utility issues, as Chart 4 indicates, the average position was only 41 per cent during the first half of the decade and almost 49 per cent during the later five years. The importance of these securities to Chi-

<sup>32</sup>The analysis of the security offerings of the New York investment houses covers only the four-year period from 1925 through 1928. Appendix F shows the volume of the offerings of Chicago and New York bankers, together with that of the issues for the entire United States. These data were compiled from *American Underwriting Houses and Their Issues*.



TABLE X  
 SECURITY ISSUES OFFERED ENTIRELY BY CHICAGO INVESTMENT BANKERS OR BY  
 SYNDICATES HEADED BY THEM; YEARS 1921-1930  
 (Amounts in 000's)

Year	Total		Public Utilities		Industrials		Railroads		Real Estate		Foreign Government		Investment Trusts and Financial Companies	
	Number of issues	Amount	Number of issues	Amount	Number of issues	Amount	Number of issues	Amount	Number of issues	Amount	Number of issues	Amount	Number of issues	Amount
Total . . . . .	2,619	\$5,664,084	787	\$2,587,828	697	\$1,623,964	37	\$117,038	1,031	\$1,014,624	15	\$39,232	52	\$281,398
1921 . . . . .	92	162,091	20	35,894	55	106,539	6	10,178	10	8,480	1	1,000	..	.....
1922 . . . . .	165	395,941	51	141,995	80	209,045	1	3,894	32	36,007	1	5,000	..	.....
1923 . . . . .	162	279,733	60	151,303	68	92,330	4	800	30	35,300	..	.....	..	.....
1924 . . . . .	223	357,228	76	199,656	51	72,385	2	3,400	94	81,787	..	.....	..	.....
1925 . . . . .	398	532,910	81	195,376	71	125,772	1	1,000	240	198,512	5	12,250	..	.....
1926 . . . . .	392	688,312	125	306,570	83	188,244	1	4,665	179	182,083	3	6,300	1	450
1927 . . . . .	414	932,024	119	474,692	99	212,136	4	23,580	181	191,069	4	14,047	7	16,500
1928 . . . . .	412	846,035	116	377,639	108	193,198	10	40,299	167	195,606	1	635	10	38,658
1929 . . . . .	268	915,052	83	329,218	56	264,912	4	10,717	91	84,415	..	.....	34	225,790
1930 . . . . .	93	554,758	56	375,485	26	159,403	4	18,505	7	1,365	..	.....	..	.....

Source of data: *The Commercial and Financial Chronicle*. Holding companies are included with operating companies.

TABLE XI  
 PERCENTAGES OF THE VOLUME OF VARIOUS GROUPS OF SECURITY ISSUES  
 TO THE AGGREGATE VOLUME OF ISSUES OFFERED BY CHICAGO  
 INVESTMENT BANKERS; YEARS 1921-1930

Year	Public Utilities	Industrials	Railroads	Real Estate	Foreign Government	Investment Trusts and Financial Companies
1921.....	22.1	65.7	6.3	5.2	.6	....
1922.....	35.9	52.8	1.0	9.1	1.3	....
1923.....	54.1	33.0	.3	12.6	....	....
1924.....	55.9	20.3	1.0	22.9	....	....
1925.....	36.7	23.6	.2	37.3	2.3	....
1926.....	44.5	27.3	.7	26.5	.9	.1
1927.....	50.9	22.8	2.5	20.5	1.5	1.8
1928.....	44.6	22.8	4.8	23.1	.1	4.6
1929.....	36.0	29.0	1.2	9.2	....	24.7
1930.....	67.7	28.7	3.3	.2	....	....

See note to Table X.

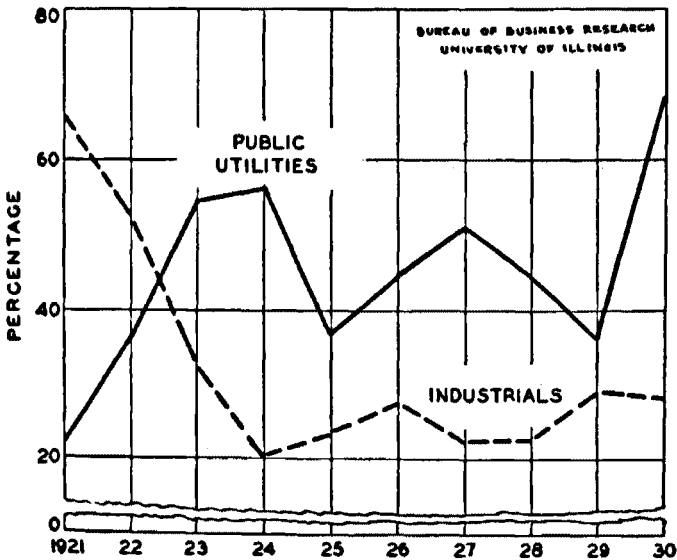


CHART 4—PERCENTAGES OF PUBLIC UTILITY AND INDUSTRIAL ISSUES  
 TO THE TOTAL VOLUME OF ORIGINATIONS OF CHICAGO INVESTMENT BANKERS; 1921-1930

chicago houses as compared with industrial issues is to be observed in Chart 4. In 1924 flotations of industrials constituted only 20 per cent of the entire offerings and since that year have not risen above 29 per cent of the aggregate; public utility offerings, on the other hand, reached the high position of almost 68 per cent of the total underwritings in 1930 and were at their lowest relative levels in 1925 and 1929 with approximately 36 per cent. During the seven years from 1924 through 1930 the proportion of public utility securities originated by Chicago bankers averaged almost exactly twice that of industrial securities—48 per cent of the total as compared with only 24.9 per cent for industrials.

Furthermore, the leading place of public utilities in the underwritings of Chicago bankers is seen in the fact that from 1921 through 1925 they originated \$724,224,000 in securities in this field; during this period their flotations of industrials amounted to only 84 per cent of this sum. From 1926 through 1930 Chicago investment houses brought out \$1,863,604,000 in public utility issues and during these years the underwritings of industrials amounted to only 55 per cent of this volume.

The extent to which Chicago houses have handled public utility and industrial security issues in the past three years is to be observed from the following:

	1928	1929	1930
<b>Public Utility Issues:</b>			
Originations.....	\$ 377,639,000	\$329,218,000	\$375,485,000
Participations.....	664,468,000	439,932,000	548,062,000
Total.....	<u>\$1,041,107,000</u>	<u>\$769,150,000</u>	<u>\$923,547,000</u>
<b>Industrial Issues:</b>			
Originations.....	\$193,198,000	\$264,912,000	\$159,403,000
Participations.....	249,439,000	181,408,000	298,822,000
Total.....	<u>\$442,637,000</u>	<u>\$446,320,000</u>	<u>\$458,225,000</u>

### Railroads

Chicago underwriters have had only a small part in the financing of railroads even though the city is the transportation center of the country. The volume of railroad issues brought out by these houses took no definite course during the last decade and in the aggregate for the entire ten years amounted to scarcely more than 117 millions.<sup>33</sup> The proportion of these security flotations to the total was greatest in 1921 when 6.3 per cent was reached; since then railroad issues have never amounted to 5 per cent of the aggregate brought out by Chicago

<sup>33</sup>By far the greatest part of these issues took the form of equipment trust certificates with which the purchase of rolling stock was financed.

bankers. As has been mentioned, the participations of these houses in railroad issues originated by outside security companies has likewise been comparatively small.

### Real Estate

To a large extent Chicago bond houses financed new building operations in the city, and this construction had gained exceptional proportions by the middle of the decade. Rising from less than 82 millions in 1924, new issues from 1925 through 1928 were remarkably regular at approximately 190 millions each year; in 1929 and particularly 1930, however, a marked falling off took place.<sup>34</sup> From 1921 real estate bonds originated by Chicago houses occupied an increasing position relative to the aggregate underwritings, expanding from 5.2 per cent of the total in the former year to 37.3 per cent in 1925 when the peak was reached.<sup>35</sup> Then there set in an almost unbroken decline in the proportion of these securities until in 1930 less than 1 per cent of the aggregate flotations were real estate issues.

The greatest portion of all the real estate bonds brought out in Chicago are handled by houses specializing in this type of security. When a detailed analysis was made of a typical year—1927—it was found that real estate securities were originated by 23 of these specialized investment houses and that their volume of flotations amounted to more than 97 $\frac{1}{3}$  millions. General investment houses underwrote real estate issues to the amount of almost 61 millions, and the bond departments of banks and trust companies accounted for an additional 32 $\frac{3}{4}$  millions. The specialized firms handle many more small issues than do the other two groups. For example, in 1927 the former brought out 119 real estate issues the average volume of which was only \$818,000. In the same year the general investment bankers handled 32 real estate originations averaging \$1,903,000 per issue; 30 issues

<sup>34</sup>It is to be noted that because a large number of real estate issues are relatively small in amount it is likely that more of the securities of this class are omitted from the sources from which the material of the analysis is drawn than of other kinds of issues.

<sup>35</sup>Although normally a very large portion of real estate security offerings consists of bonds, the general popularity of stock issues in 1928 and 1929 was reflected even in these offerings. In 1925, for the country as a whole 4.2 per cent of the volume of these issues was composed of stocks; in 1927, 8.7 per cent; in 1928, 11.9 per cent; and in 1929 stock issues made up 22.8 per cent of the aggregate real estate issues. In the first six months of 1930 their relative position declined to 8.2 per cent. See *Proceedings of the Nineteenth Annual Convention of the Investment Bankers Association of America*, p. 260.

It was found that in 1928, 7.4 per cent of the real estate securities brought out by Chicago underwriters was in stock issues, whereas in 1929, when a large portion of the country's real estate issues consisted of stocks, such stock issues handled by bankers in Chicago formed only 3.9 per cent of their total offerings.

were brought out by the bond departments of banks and trust companies, the average of which was \$1,092,000 in amount. In the past decade Chicago security houses originated more than 1,000 real estate issues, which exceeded one billion dollars in volume.

### Foreign

Chicago bankers are not important factors in the origination of foreign government securities; the aggregate for the last decade was not quite 39¼ millions and comprised 15 issues. These financial houses have participated, however, to a very large extent in foreign issues, as was previously pointed out.

### Investment Trusts

In only one year of the past decade security firms in Chicago brought out investment trust issues in any very large volume. In 1929 these houses together with what are here called financial companies offered alone or as syndicate managers issues in this field to the amount of more than 225¾ millions.<sup>36</sup> Of this total, \$204,715,000 was in flotations of investment trusts, a considerable portion of them being corporations sponsored by Chicago interests. Practically all the investment trust offerings were stock issues. In addition to the 22 investment trust issues brought out by Chicago bankers in 1929 there were 12 offerings of so-called financial companies, most of which were bonds, amounting to a little more than 21 millions.<sup>37</sup> As Table XI shows, the flotations of investment trusts and financial companies constituted almost one-fourth of all the Chicago originations in 1929. It does not seem probable that Chicago bankers will play a large part in the handling of investment trust flotations in at least the near future. Securities of this type which they have originated thus far have been largely those of companies locally promoted; and their participations in this class of security originated by outside bankers have been relatively small.

It is interesting to compare the relative positions of railroad, real estate, and foreign government issues in the aggregate security flotations of Chicago bankers and in those of the country as a whole. As previously mentioned, railroad issues normally form a much larger

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<sup>36</sup>Here, as throughout the entire study, holding company issues are included with those of operating companies. The test of a holding company is here understood to be whether or not the purpose is that of control. A security-owning company is considered to be an investment trust if its purpose is primarily that of income from investments.

<sup>37</sup>Examples of institutions classed as "financial companies" are surety, realty mortgage, and finance companies.

TABLE XII

PERCENTAGES OF THREE GROUPS OF SECURITY ISSUES TO THE AGGREGATE VOLUME OF ISSUES OFFERED IN THE ENTIRE UNITED STATES AND BY CHICAGO INVESTMENT BANKERS (ORIGINATIONS); YEARS 1921-1930

Year	Railroads		Real Estate		Foreign Government	
	United States	Chicago	United States	Chicago	United States	Chicago
1921.....	23.7	6.3	2.0	5.2	13.7	.6
1922.....	18.6	1.0	5.1	9.1	12.3	1.3
1923.....	14.9	.3	7.3	12.6	7.0	...
1924.....	20.4	1.0	7.3	22.9	16.9	...
1925.....	9.6	.2	14.0	37.3	12.0	2.3
1926.....	7.3	.7	12.7	26.5	8.8	.9
1927.....	11.9	2.5	8.3	20.5	9.6	1.5
1928.....	8.6	4.8	9.6	23.1	7.7	.1
1929.....	8.1	1.2	5.2	9.2	.7	...
1930.....	17.2	3.3	4.1	.2	8.1	...

part of the security offerings of the entire United States than of those handled in Chicago (Table XII). Real estate issues, on the contrary, regularly bulk considerably larger in the aggregate flotations of Chicago houses than in the total offerings of the country as a whole. This relative showing, in part at least, is likely due to an understatement of the total real estate issues for the country as a whole because of the difficulty in obtaining data in regard to many of the smaller issues. However, it must be remembered that building operations in Chicago had developed in a marked fashion by the middle of the decade; on the whole the increase was greater than that for the entire United States.<sup>36</sup> Chicago bankers handled a large part of the city building bonds and in addition underwrote real estate issues throughout the Middle West.

During the last decade foreign government bonds bulked far larger in the aggregate of the country's underwritings than in Chicago flotations. These issues handled throughout the country as a whole averaged from 1921 through 1925, 12.4 per cent of the total security offerings, whereas during these years the foreign government issues originated by Chicago houses comprised only  $\frac{3}{10}$  of 1 per cent of their aggregate originations. The relative positions were not greatly changed in the latter half of the decade.

### Size of Issues

Table XIII shows that during the past decade there has been a tendency, although not a marked one, for security issues of less than

<sup>36</sup>See Appendix E.

TABLE XIII

PERCENTAGES OF SECURITY ISSUES UNDER ONE MILLION DOLLARS IN AMOUNT TO THE TOTAL NUMBER OF ISSUES BY CLASSES OFFERED ENTIRELY BY CHICAGO INVESTMENT BANKERS OR BY SYNDICATES HEADED BY THEM; YEARS 1921-1930

Year	Total	Public Utilities	Industrials	Railroads	Real Estate	Foreign Government	Investment Trusts and Financial Companies
1921.....	46	40	49	17	60	0	...
1922.....	50	39	51	0	66	0	...
1923.....	50	38	56	100	53	...	...
1924.....	52	33	55	50	67	...	...
1925.....	61	32	49	0	75	20	...
1926.....	49	34	31	0	68	33	100
1927.....	50	34	43	25	69	0	0
1928.....	47	29	41	30	67	100	0
1929.....	45	31	25	50	80	...	12
1930.....	39	28	59	50	100	...	...

one million dollars to compose a smaller proportion of the total number of flotations handled by Chicago bankers. This is quite obvious when the first five years are compared with the latter half of the decade. In 1925, 61 per cent of all the issues put out by these houses were those of less than one million dollars; by 1928 these relatively small issues made up only 47 per cent of the total, and by 1930 had fallen below 40 per cent. In 1929, 55 per cent of the 268 issues originated in Chicago were those amounting to one million dollars or more. And in 1930 slightly more than three-fifths of the 93 issues were in the million dollar or above class. Public utility offerings tend to be relatively large in amount, and the tendency since 1927 has been rather marked in this direction. In 1930 only 16 of the 56 utility issues handled by Chicago firms were under one million dollars. This movement toward larger-sized issues is also evident among the industrials, although it is likely that a larger number of small industrial issues were not included in the collection of the original data than was the case for the other groups of issues; therefore great significance ought not to be given to this tendency.

Real estate issues tend to be smaller in amount than those of the other groups. Throughout the past decade real estate mortgage bonds of less than one million dollars in amount constituted from 53 per cent to 100 per cent of the total real estate issues handled by Chicago bankers. From 1921 through 1925 issues of this size averaged 64 per cent of the total, and from 1926 to the close of 1930, 77 per cent.

TABLE XIV

STATE AND MUNICIPAL SECURITY ISSUES PURCHASED BY CHICAGO INVESTMENT BANKERS, GROUPED ACCORDING TO STATES IN WHICH ISSUES ORIGINATED  
January-June, 1910  
(Amounts in 000's)

State	Issues		State	Issues	
	Volume	Number		Volume	Number
Total.....	\$16,771	130	Delaware.....	\$200	1
Colorado.....	5,812	3	Mississippi.....	175	7
Illinois.....	4,377	25	North Carolina.....	150	3
Oklahoma.....	812	14	Kentucky.....	143	4
Kansas.....	800	2	Nebraska.....	121	4
Tennessee.....	775	4	Wisconsin.....	121	4
Iowa.....	534	10	Minnesota.....	115	3
Maryland.....	500	1	Missouri.....	100	1
Alabama.....	406	2	New Mexico.....	94	3
Texas.....	381	7	South Dakota.....	50	2
Michigan.....	297	8	Florida.....	42	2
Idaho.....	223	5	Arkansas.....	40	1
Virginia.....	220	3	Utah.....	35	1
Oregon.....	207	7	Montana.....	29	2
			Washington.....	11	1

### State and Municipal

Security issues of state, county, and municipal jurisdictions have increased enormously in the last generation; since 1921 the annual volume of this financing, however, has remained comparatively constant. The peak for state and municipal issues in the entire United States was reached in 1927 with 1,510 millions; this amount was 15 per cent of the total volume of security offerings. In 1921 they amounted to 1,209 millions or 29 per cent of the total volume; in 1930 they aggregated 1,487 millions, 19 per cent of all the offerings.

The task involved in compiling data covering the volume of state and local government bonds handled by Chicago bankers is so great that only a brief account of these issues will be given.<sup>39</sup> Two six-months periods were analyzed, one in 1910 and the other in 1930.

It was found that from January through June, 1910, bond houses in Chicago bought 130 state and municipal issues amounting to \$16,771,000 (Table XIV). These issues comprised almost 30 per cent of the aggregate offerings of Chicago houses for this six-months period. Three Colorado offerings accounted for more than one-third

<sup>39</sup>These data were gathered from the "State and City Department" columns under the subtitle "Bond Proposals and Negotiations" of *The Commercial and Financial Chronicle*. Only those issues that the news items indicated had actually been sold to bankers were included in this analysis. For the country as a whole, monthly summary figures covering municipal issues are available in this source.



TABLE XV

STATE AND MUNICIPAL SECURITY ISSUES PURCHASED BY CHICAGO INVESTMENT BANKERS, GROUPED ACCORDING TO STATES IN WHICH ISSUES ORIGINATED  
January-June, 1930  
(Amounts in 000's)

State	Issues		State	Issues	
	Volume	Number		Volume	Number
Total.....	\$79,873	120	Iowa.....	\$1,605	8
Missouri.....	13,000	3	Indiana.....	1,021	6
Illinois.....	10,330	19	Connecticut.....	945	2
New Mexico.....	10,300	2	Kansas.....	450	1
Arkansas.....	9,000	1	Arizona.....	375	1
Ohio.....	6,300	12	Mississippi.....	372	1
Wisconsin.....	4,761	16	Oregon.....	300	1
Michigan.....	3,957	9	North Carolina.....	276	7
Washington.....	3,610	4	New Jersey.....	223	2
Minnesota.....	3,500	4	Virginia.....	165	2
Texas.....	2,700	3	Nebraska.....	150	1
Oklahoma.....	2,210	2	California.....	100	1
Rhode Island.....	2,200	2	Louisiana.....	100	1
New York.....	1,826	6	Kentucky.....	50	1
			Georgia.....	47	2

of the total volume of local government issues. Illinois ranked second in the amount of these securities handled by bankers in Chicago, furnishing 25 of these issues. It is interesting to observe that more than one-half of all the state and municipal issues bought by these bankers originated in states outside the Middle West and that their volume amounted to 66 per cent of the total.

Table XV shows the state and municipal offerings purchased by Chicago houses in the first half of 1930. The total purchases amounted to \$79,873,000, 18.6 per cent of the aggregate securities offered by these firms. Thus the obligations of local governments occupied a considerably lower position relative to total offerings than they did in 1910. Although the volume of these obligations bought by Chicago houses in 1930 was almost five times that of 1910, the number of issues bought was less. This indicates a rather marked tendency toward larger and fewer individual issues. This has been a general tendency throughout the country.<sup>40</sup> In 1930 a smaller proportion of the volume of these offerings originated outside the Middle West than in 1910—44 per cent of the total as compared with 66 per cent twenty years previously, and they comprised approximately one-third of the number of state and municipal issues as compared with more than

<sup>40</sup>See *Proceedings of the Nineteenth Annual Convention of the Investment Bankers Association of America*, p. 172.

one-half in 1910. It is significant to note that these issues have tended to bulk somewhat larger in the total underwritings of Chicago bankers than in the aggregate for the entire country. It was found that state and municipal securities in 1910 (the entire year) constituted only 17 per cent of the total reported issues for the entire United States, whereas these obligations handled by Chicago investment houses, as indicated above, were practically 30 per cent of the volume of their originations (for the first half of the year). Again, during the first six months of 1930, 15.5 per cent of all the country's new issues consisted of these securities, but they constituted 18.6 per cent of the underwritings of Chicago bankers.

Furthermore, this difference in the relative position of this type of security is somewhat greater than the above figures indicate due to the fact that there are some municipal issues purchased directly by institutions other than banking houses and that, therefore, the proportion of these issues handled by bankers, in the country as a whole, is somewhat below the 15.5 per cent shown here. Although an analysis of two short periods is a small foundation on which to base conclusions, and, furthermore, 1930 was not a normal year in the volume of security offerings, yet it appears that state and municipal issues bulk fairly large in the Chicago underwritings. Security houses in Chicago offer bids on forthcoming issues of state and local government obligations in practically every state in the Union and they have come to be large factors in the municipal bond market.

A number of Chicago banks through their bond departments and investment affiliates have been active and still remain so in the municipal field. It was found that in the first six months of 1910 bond departments of banks purchased 25 issues of municipal obligations which aggregated \$4,191,000, representing in volume one-fourth of the total purchased in the city. During the first half of 1930 bond departments handled practically the same proportion of the total, and in addition investment affiliates of banks accounted for almost the same amount; hence these two classes of investment houses purchased one-half of the state and municipal offerings handled in Chicago.

#### **Analysis of Individual Investment Bankers' Underwritings and Participations**

For this section of the study an analysis was made of the underwritings of each individual house in Chicago for the four-year period from 1925 through 1928. The years are not considered separately here

but in the aggregate.<sup>41</sup> The source of the data used was *American Underwriting Houses and Their Issues*, supplemented, for a summary of real estate issues, by *The Commercial and Financial Chronicle*. The former source shows quite a number of issues, practically all of which are small ones, not recorded in the latter; the volume of security offerings set forth in the first source likewise exceeds somewhat that given in the second. In the four years covered in the analysis there were 153 investment banking firms in Chicago that either originated or participated in at least one security offering. A considerable number of these were very small factors in the securities market; for example, it was found that the issues with which 74 of these houses—almost one-half—were associated either as originators or as participators aggregated less than 5 million dollars for the four years, thus averaging only 1¼ millions per year. A number of causes contributed to the result that this relatively large number of houses handled a small aggregate business: (1) The record of the actual underwritings in the above sources is incomplete, especially in the case of the smaller issues. (2) A number of the investment houses were not in business during the entire four-year period, some, for example, going out of business in 1925, and others not commencing operations until 1928. In a number of instances partnerships were dissolved, new ones formed, and mergers completed during the period studied. (3) Several houses specialized in small real estate issues the aggregate volume of which is not normally large; furthermore, others were considerable factors in municipal securities, which were not included in this analysis. To eliminate those houses which were not in business throughout the four years and also to rule out those who underwrote less than five issues would lend somewhat greater uniformity to the analysis in that only what might be termed representative firms would be considered. It is the purpose, however, to include every Chicago investment house that was recorded as underwriting an issue in this period; thus a complete picture is presented of the activities of all these firms. Without question there are more representative houses among those doing a relatively large business than among those in the small business group.

Table XVI shows the proportion of security originations to the total volume of issues handled for all Chicago investment bankers during the period from 1925 through 1928. The houses are grouped

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<sup>41</sup>The period of four years was adopted for analysis, first, because this period was that covered in *American Underwriting Houses and Their Issues*, and, second, because a period of several years is more representative of a given firm's business than one year which might be one of far from normal activity.

TABLE XVI

PERCENTAGES OF THE VOLUME OF SECURITY ORIGINATIONS TO THE TOTAL ORIGINATIONS AND PARTICIPATIONS, INDIVIDUAL INVESTMENT BANKERS OF CHICAGO, 1925-1928  
(Grouped According to Aggregate Volume of Underwriting Business)

Percentage Group	Under \$5,000,000		\$5,000,000 and Under \$50,000,000		\$50,000,000 and Under \$95,000,000		\$95,000,000 and Over	
	74	100%	48	100%	8	100%	23	100%
Total Number of Houses	74	100%	48	100%	8	100%	23	100%
100%.....	52	70.2	8	16.7	1	12.5	..	....
75% and Under 100%..	4	5.4	4	8.3	1	12.5	3	13.0
50% and Under 75%..	6	8.1	9	18.7	1	12.5	2	8.7
25% and Under 50%..	3	4.1	6	12.5	2	25.0	4	17.4
Under 25%.....	9	12.2	21	43.8	3	37.5	14	60.9

Sources of data: *American Underwriting Houses and Their Issues* and *The Commercial and Financial Chronicle*.

Note: State and municipal issues are not included.

according to the volume of underwriting business.<sup>42</sup> Most of the smaller firms do not participate in issues brought out by other houses. Of the 74 security houses doing an underwriting business of less than 5 millions during the four years, 52 had no participations, that is, the only issues with which they were identified were their own originations. Four others had originations of 75 per cent but less than 100 per cent of their total underwritings, 9 houses from 25 per cent to 75 per cent of the total, and 9 other firms, 12.2 per cent of the entire class, brought out as originators security issues amounting to less than 25 per cent of the total issues with which they were identified. It was found that 48 investment houses did an underwriting business of from 5 millions to 50 millions during the four years. Only 8 of these had no participations at all; 15 firms, almost one-third of those in this class, originated issues constituting between 25 per cent and 75 per cent of their total underwritings; and 21 houses brought out, alone or as syndicate head, issues consisting of less than one-fourth of their underwritings. This means that in the case of almost 44 per cent of the security houses of this class participations composed more than 75 per cent of their aggregate offerings. In the case of the 8 firms doing a business of from 50 to 95 millions, 3 of them—that is, more than one-third—had originations consisting of less than 25 per cent of their aggregate underwritings, and only one of these houses had no participations. All the 23 security houses doing the largest volume of underwriting (95

<sup>42</sup>Here, as pointed out in the foregoing, it must be noted that a participation constitutes the total amount of the issue underwritten by a syndicate of which the participating house was a member.

TABLE XVII

PERCENTAGES OF THE VOLUME OF BOND ISSUES (ORIGINATIONS) TO THE TOTAL ISSUES ORIGINATED, INDIVIDUAL INVESTMENT BANKERS OF CHICAGO, 1925-1928  
(Grouped According to Aggregate Volume of Originations)

Percentage Group	Under \$5,000,000		\$5,000,000 and Under \$50,000,000		\$50,000,000 and Under \$95,000,000		\$95,000,000 and Over	
	87	100%	36	100%	7	100%	9	100%
Total Number of Houses	87	100%	36	100%	7	100%	9	100%
100%.....	63	72.5	25	69.3	2	28.6	2	22.2
75% and Under 100%...	1	1.1	6	16.7	4	57.1	6	66.7
50% and Under 75%...	4	4.6	2	5.6	..	....	1	11.1
25% and Under 50%...	2	2.3	1	2.8	..	....	..	....
Under 25%.....	17	19.5	2	5.6	1	14.3	..	....

Source of data: See Table XVI.

Note: Bond issues include notes and other obligations.

millions and more for the four-year period) participated in issues brought out by other firms; and 14 of them were found to have originated less than 25 per cent of the total volume of issues with which they were identified.

It is clearly indicated, therefore, that as investment banking houses increase in size and volume of business, participations in security offerings originated by other bankers come to represent a more important part of their total business. The following facts may be gained from Table XVI: for the group of smallest firms their own originations composed at least one-half of the volume of their underwritings in the case of 83.7 per cent of their number; for each of the other three groups the position was 43.7 per cent, 37.5 per cent, and 21.7 per cent, respectively. This tendency is further brought out in an analysis of aggregate data (not shown in the table) of each of the four groups. Thus the smallest houses handled alone aggregate issues amounting to 74.6 per cent of all the offerings they were identified with, whereas in the case of the largest firms originations composed only 18.6 per cent of their total offerings.

An interesting fact appearing from the analysis was that two security affiliates of Chicago banks were identified with a very large volume of underwriting during the above period and that each of them had participations constituting practically all (all except approximately 2 per cent) of their aggregate underwritings.

It has been pointed out that the volume of security underwritings by Chicago bankers consists in large part of bond issues (in which are included notes and other obligations to pay); the extent to which this is true of individual firms may be seen in Table XVII. Here again

TABLE XVIII

PERCENTAGES OF THE NUMBER OF TOTAL ISSUES HANDLED ALONE TO THE AGGREGATE HANDLED ALONE AND AS SYNDICATE HEAD, INDIVIDUAL INVESTMENT BANKERS OF CHICAGO, 1925-1928  
(Grouped According to Aggregate Volume of Originations)

Percentage Group	Under \$5,000,000		\$5,000,000 and Under \$50,000,000		\$50,000,000 and Under \$95,000,000		\$95,000,000 and Over	
	87	100%	36	100%	7	100%	9	100%
Total Number of Houses	87	100%	36	100%	7	100%	9	100%
100%.....	60	69.1	5	13.9	..	....	1	11.1
75% and Under 100%..	3	3.4	6	16.7	3	42.9	1	11.1
50% and Under 75%...	12	13.8	9	25.0	..	....	..	....
25% and Under 50%...	5	5.7	8	22.2	4	57.1	4	44.5
Under 25%.....	7	8.0	8	22.2	..	....	3	33.3

Source of data: See Table XVI.

the houses are grouped according to size—this time by the volume of originations. There is somewhat of a tendency for bonds to bulk larger in the offerings brought out by small firms than in those of the larger-sized houses. Thus, of the bankers doing the smallest business, 72.5 per cent brought out only bond issues, and only 22.2 per cent of those doing the largest volume of business originated bond issues only. This difference among the various groups does not appear, however, when an analysis is made of the houses less than 50 per cent of the volume of whose flotations was in the form of bond issues. For example, for 21.8 per cent of the firms in the smallest business class bond offerings made up less than one-half of their total volume of issues; that is, for these investment houses stocks composed the greater part of the issues. Among the larger-sized houses, on the other hand, a smaller proportion showed such a high position for stocks. Not one of the nine largest houses had less than 50 per cent of its underwritings in the form of bonds. It thus appears that while a considerably larger proportion of the smaller houses than of the larger firms underwrite no stock issues, yet of the houses handling stock issues at all the larger ones handle them in smaller proportions to their aggregate underwritings. The total stock originations of all the houses in the smallest business group were 29.7 per cent of their aggregate underwritings, whereas those of the largest firms amounted to only 7.8 per cent of the total volume they handled.

An analysis of the New York underwritings (not shown in the table) shows that the volume of bond issues brought out by bankers in that city had a smaller place in their total offerings than was the case in Chicago. This was particularly apparent for the groups doing

the smallest business and only slightly less evident for the larger houses.

A relatively large number of the smaller investment houses handled alone the issues which they brought out; 60 of the 87 firms in the smallest class had no participators in their security offerings, that is, no syndicates were formed (Table XVIII).<sup>43</sup> Only 12 houses, 13.7 per cent of the total number in this class, handled less than one-half of their originations alone. In the case of the group of the next larger houses only 13.9 per cent of them brought out their offerings unassisted; and only one firm among the 16 of the largest houses originated all of its issues with no participators.<sup>44</sup> Whereas less than one-fourth of the houses in the smallest groups handled less than 50 per cent of their offerings alone, in the case of the largest firms more than five-eighths of the number underwrote less than 50 per cent of their issues with no participators. It is the usual custom for large investment bankers bringing out substantial issues to invite other houses to share in the underwriting.

When aggregate data for each of the four groups of security houses were analyzed, it was found that the smallest firms handled alone 76.6 per cent of their total originations; the three groups of larger firms in their order handled only 70.1 per cent, 67.3 per cent, and 52.9 per cent, respectively, of their offerings with no participators.

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<sup>43</sup>It must be noted that a very large portion of these small underwriters brought out only 5 issues or fewer in the four-year period under study.

<sup>44</sup>This investment banking house was one specializing in real estate mortgage bonds.

#### IV. SUMMARY

Although it is only since the World War that Chicago banking houses have become large factors in the securities market, yet a significant development of their investment banking operations throughout the past generation can be observed. Thus it was found that in 1900 less than 10 millions in new security issues (exclusive of state and municipal issues) was brought out by investment bankers in Chicago; ten years later originations amounted to almost 60 millions, and in 1920 to approximately 270 millions; and in 1927 the peak was reached with 932 millions. Although new security flotations fluctuated considerably from year to year, yet the tendency in underwritings was markedly upward. Security flotations numbered 12 issues in 1900 and 128 in 1920.

Public utility securities have bulked large relative to the total issues brought out by Chicago bankers; on the contrary, railroad issues have from the beginning composed a very small proportion of their underwritings. New security issues arising from the many industrial mergers early in the century were handled almost exclusively by large Eastern houses. And until very recent years practically every substantial public utility, industrial, and railroad issue was handled by a New York banker managing an underwriting syndicate in the membership of which there were frequently one or two Chicago houses; more often the latter firms simply participated in the retailing of the issues which were underwritten in the East. It was not until 1918 that the first large issue was originated solely by investment houses in Chicago.

Not only have Chicago houses expanded notably in size until at present several of them are able to handle unaided an issue of several millions in amount, but also the number of houses has increased. Thirty years ago there were not more than seventy of these firms in the city (not including brokers) and among these there were only a few with resources sufficient for the origination of new issues or participation in underwritings beyond narrow limits. At present there are approximately 386 security houses of all classes with home offices in Chicago, exclusive of brokerage firms; these houses also maintain offices in 87 cities throughout the country.

An analysis of the volume of business of Chicago underwriters shows a marked expansion in their originations during the past decade. Although the flotations of these houses tend to follow the same general course as those of the entire country, the increase was considerably



greater in the case of the former. No year-to-year tendency is to be observed in the proportion of the country's new security issues that was handled by Chicago bankers as originators; however, it was found that the volume brought out by them averaged 8.6 per cent of the aggregate during the first half of the decade and 10.3 per cent during the latter half. When allowance is made for issues disposed of directly by the issuing corporations, the relative position of the houses in Chicago is somewhat larger than these percentages indicate.

The volume of security flotations originated by bankers outside Chicago but in which Chicago houses participated as underwriters increased in a marked fashion from 1922 through 1927, and participations remained on a high level in both 1928 and 1930; in the latter year the volume of issues participated in comprised 23 per cent of the country's aggregate flotations. Hence, as originators and as participators, Chicago houses were identified with almost one-third of all the issues offered in the United States. During recent years issues of public utilities and foreign governments have been those in which bankers in Chicago have participated to the greatest extent. In 1928 these two classes composed 73 per cent of the total participations of these bankers, and in 1929 and 1930, 55 per cent and 71 per cent, respectively. New security offerings of investment trusts, which were originated for the most part by Eastern bankers and which reached their peak in 1929, have been participated in by Chicago houses to a very slight extent; this holds also for railroad issues except to a somewhat smaller degree.

By far the greater part of the securities handled by Chicago bankers as originators are bonds; in the first half of the past decade bonds averaged 95 per cent of the total volume of issues, and in the latter five years, reflecting the general favor of stocks, they averaged 80 per cent of the aggregate. Bonds have tended to occupy a somewhat lower position in the security offerings of the country as a whole and in those of New York than in those of Chicago. A contributing factor to this showing of the Chicago flotations has been the large position which public utility and real estate issues have had in their offerings; particularly was this the situation between 1923 and 1928.

Since 1923 Chicago banking houses have brought out alone or as syndicate managers a far greater volume of public utility securities than of any other type of business; in fact, in four years since 1923 issues of public utilities comprised more than one-half of the total originations. During the seven years ending with 1930 the proportion of these issues to the total originations averaged twice that of industrials. It appears that bankers in the Chicago market have be-

come definitely identified with the flotations of public utility securities, both by originating them and by participating in issues managed by outside bankers. Likewise these houses have handled real estate issues in relatively large volume; during the four years from 1925 to 1928 real estate securities composed from 20 per cent to 37 per cent of the total originations. This type of security, moreover, tended to bulk much larger in the underwritings of Chicago bankers than in those of the country as a whole.

Railroad issues make up a very small portion of the originations of these houses; in the past decade their high position relative to total underwritings was reached in 1921 with only 6.3 per cent. For the entire United States new railroad securities averaged 14 per cent of the total offerings as compared with an average of scarcely 2 per cent in the case of the Chicago underwritings. New foreign government security issues have had a negligible place in the aggregate issues originating in Chicago. Almost invariably a New York house is syndicate manager in the handling of the largest of these flotations; however, as was indicated above, Chicago bankers have participated in practically all of these issues which have come out in recent years. In only one year—1929—did the Chicago houses bring out investment trust issues in relatively large volume; and these were very largely securities of companies identified with local interests.

When an analysis was made of the underwritings of individual investment banking houses in Chicago, it was found that security issues participated in composed a far larger share of the total business of the larger firms than of the small houses. A comparison of the volume of bond issues with the total originations of the bankers shows that a considerably larger proportion of the smaller houses originate nothing but bond issues than in the case of the larger houses. However, of the bankers bringing out stock issues at all, the larger ones handled them in smaller proportions to their aggregate underwritings.

There is a marked tendency for the issues of those bankers doing the largest volume of business to be participated in by other security houses.

## 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
<b>Total.....</b>	<b>12</b>	<b>81</b>	<b>128</b>	<b>93</b>

## 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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24. Capital Stock, Surplus, and Undivided Profits of Chicago Banks.
25. The Determination of Secular Trends. (*Out of print.*)
26. Standard Financial Ratios for the Public Utility Industry. (*Out of print.*)
27. The Financial Plan of Gas Companies. (*Out of print.*)
28. An Analysis of Earning Assets of Chicago Banks.
29. Balance Sheet Structure of Automobile Manufacturing Companies.
30. Seasonal and Cyclical Movements of Loans and Investments of Chicago Banks.
31. A Test Analysis of Unsuccessful Industrial Companies. (*Out of print.*)
32. The Financial Plan of Department Stores.
33. The Banking Structure of the Seventh Federal Reserve District. (*Out of print.*)
34. A Community Labor Survey.
35. The Financial Plan of Electric Light and Power Companies.
36. Grocery Wholesaling in Illinois from 1900 to 1929.
37. The Operating and Earning Power Ratios of Gas Companies.
38. A Market Research Bibliography. (*Out of print.*)
39. Investment Banking in Chicago.