INDUSTRIAL PRICE POLICIES AND ECONOMIC PROGRESS

VIN G. NOURSE and HORACE B. DRURY

which is a follow-up on the well-known series on Economic Progress,” gets down to cases and concrete realistic terms the factors which enter king of practical industrial prices under modern. It shows how new technological developments and the operation of the industrial system. Under techniques and forms of business set-up, many prices “administered.” But the analysis shows that this necessarily mean harmful types of control. On the shows that this situation is being used by forcutives to develop a new and potentially more of competition.

314 Pages. 1938. $2.50.

AMERICA’S STAKE IN NATIONAL INVESTMENTS

BY CLEONA LEWIS

e tells the story of capital migrations to and from States, from the Revolutionary War period to the e. Its purpose is to indicate the growth of the reign obligations and foreign investments during of a century and a half; to show the net debtor position of the country in various years; to deter foreign creditors have fared; to measure roughly l results of America’s investing abroad; and to outlook for foreign investments in the future. investigation was largely statistical, but stories e experiences of the borrowers and lenders give stours to the bony frame of statistical evidence.

685 Pages. 1938. $4.00.
THE INSTITUTE OF ECONOMICS
OF
THE BROOKINGS INSTITUTION

Publication No. 78
THE BROOKINGS INSTITUTION

The Brookings Institution—Devoted to Public Service through Research and Training in the Social Sciences—was incorporated on December 8, 1927. Broadly stated, the Institution has two primary purposes: the first is to aid constructively in the development of sound national policies; and the second is to offer training of a super-graduate character to students of the social sciences. The Institution will maintain a series of cooperating institutes, equipped to carry out comprehensive and inter-related research projects.

The responsibility for the final determination of the Institution's policies and its program of work and for the administration of its endowment is vested in a self-perpetuating Board of Trustees. The Trustees have, however, defined their position with reference to the investigations conducted by the Institution in a by-law provision reading as follows: "The primary function of the Trustees is not to express their views upon the scientific investigations conducted by any division of the Institution, but only to make it possible for such scientific work to be done under the most favorable auspices." Major responsibility for "formulating general policies and coordinating the activities of the various divisions of the Institution" is vested in the President. The by-laws provide also that "there shall be an Advisory Council selected by the President from among the scientific staff of the Institution and representing the different divisions of the Institution."

BOARD OF TRUSTEES

Dwight F. Davis, Chairman  
Leo S. Rowe, Vice-Chairman  
Dean G. Acheson  
John C. Merriam  
Robert Perkins Bass  
Roland S. Morris  
Harold W. Dodds  
Harold G. Moulton  
Clarence Phelps Dodge  
Lessing Rosenthal  
Marshall Field  
Anson Phelps Stokes  
Jerome D. Greene  
Harry Brookings Wallace  
Alanson B. Houghton  
John G. Winant

Harold G. Moulton, President  
Leverett S. Lyon, Executive Vice-President  
Edwin G. Nourse, Director, Institute of Economics  
Lewis Meriam, Chairman, Institute for Government Research
ODD-LOT TRADING
ON THE
NEW YORK STOCK EXCHANGE.
ODD-LOT TRADING
ON THE
NEW YORK
STOCK EXCHANGE

BY
CHARLES O. HARDY

WASHINGTON, D.C.
THE BROOKINGS INSTITUTION
1939
DIRECTOR'S PREFACE

In this volume we present the results of an investigation of the structure and functioning of the odd-lot market of the New York Stock Exchange. This study is of particular interest at this time because of the recent extension of the regulatory activities of the federal government to cover the issuance and distribution of securities and the activities of organized stock exchanges.

Although the structure and technique of stock exchanges have, for many years, been the subject of a considerable body of literature, attention has centered on the "round lot" market because of the importance of its price-making functions, its larger volume, and the fullness and promptness with which its operations are reported in the press and through the stock exchange ticker system. The subsidiary odd-lot system has been much less publicized and is little understood, even by the great body of investors who patronize it. Prior to publication of reports of its operations by the Securities and Exchange Commission no quantitative data concerning its operations were available to the public, and information concerning its method of operation was available almost exclusively through trade sources.

This study was undertaken at the suggestion of the three principal odd-lot dealers—Carlisle, Mellick & Co., DeCoppet and Doremus, and Jacquelin and DeCoppet—and it has been possible to carry it through only because of their cooperation. All three dealers gave Mr. Hardy the run of their offices and free access to their files, released for his use the entire body of confidential information which they had previously submitted to the
PREFACE

Securities and Exchange Commission, and furnished much additional information at his request. The author wishes to acknowledge the assistance given him by partners and employees of these firms, whose work has frequently been interrupted for his benefit.

The expense of this study, aside from the actual compilation of statistical data, has been borne by the Brookings Institution. While the odd-lot dealers have naturally made many valuable suggestions and criticisms, the entire responsibility for the findings rests with the author and his cooperating committee. The committee of the Brookings Institution which cooperated with the author consisted of George W. Edwards, Sheldon B. Akers, and the Director of the Institute of Economics.

Edwin G. Nourse
Director

Institute of Economics
March 1939
# CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Introduction</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>II. The Odd-Lot Dealer System</strong></td>
<td>10</td>
</tr>
<tr>
<td>Organization of the Odd-Lot Market</td>
<td>10</td>
</tr>
<tr>
<td>Execution of an Odd-Lot Order</td>
<td>14</td>
</tr>
<tr>
<td>Protection of the Customer</td>
<td>16</td>
</tr>
<tr>
<td>Selling through the Limit</td>
<td>23</td>
</tr>
<tr>
<td>The Basis Market</td>
<td>27</td>
</tr>
<tr>
<td><strong>III. Round-Lot Trading and Dealers' Inventories</strong></td>
<td>29</td>
</tr>
<tr>
<td>Round-Lot Trading and Inventory Position</td>
<td>30</td>
</tr>
<tr>
<td>The Technique of Round-Lot Trading</td>
<td>32</td>
</tr>
<tr>
<td>Effect of One-Sided Public Trading on Dealers' Inventories</td>
<td>38</td>
</tr>
<tr>
<td><strong>IV. Relationship of Round-Lot Trading Policy to Costs and Profits</strong></td>
<td>45</td>
</tr>
<tr>
<td>The Costs of Round-Lot Trading</td>
<td>45</td>
</tr>
<tr>
<td>Effect of Market Activity on Dealers' Profits</td>
<td>49</td>
</tr>
<tr>
<td>Effect of Price Fluctuations on Gross Profit</td>
<td>52</td>
</tr>
<tr>
<td>Relationship between Changes in the Balance of Public Buying and Selling and the Fluctuations of Stock Prices</td>
<td>56</td>
</tr>
<tr>
<td>Conclusion</td>
<td>64</td>
</tr>
<tr>
<td><strong>V. Withholding</strong></td>
<td>67</td>
</tr>
<tr>
<td>The Theories of Withholding</td>
<td>68</td>
</tr>
<tr>
<td>Dr. Kemper Simpson's Critique</td>
<td>71</td>
</tr>
<tr>
<td>Quantitative Significance of Withholding</td>
<td>77</td>
</tr>
<tr>
<td>Withholding in Inactive Stocks</td>
<td>79</td>
</tr>
<tr>
<td>Withholding on Panic Days</td>
<td>81</td>
</tr>
<tr>
<td>Conclusions</td>
<td>85</td>
</tr>
</tbody>
</table>
# CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>VI. TAXATION OF STOCK TRANSFERS</td>
<td>87</td>
</tr>
<tr>
<td>VII. INTERSTATE COMPETITION</td>
<td>93</td>
</tr>
<tr>
<td>Technique of Trading in Dually Listed Stocks</td>
<td>93</td>
</tr>
<tr>
<td>The Development of Interstate Competition</td>
<td>94</td>
</tr>
<tr>
<td>Comparative Merits of the Two Systems</td>
<td>98</td>
</tr>
<tr>
<td>Issues of Public Policy</td>
<td>100</td>
</tr>
<tr>
<td>VIII. SPECIALIST ODD-LOT DEALERS</td>
<td>115</td>
</tr>
<tr>
<td>The Work of the Specialist</td>
<td>115</td>
</tr>
<tr>
<td>Specialist Odd-Lot Dealers</td>
<td>117</td>
</tr>
<tr>
<td>Comparison of the Two Systems</td>
<td>119</td>
</tr>
<tr>
<td>IX. COMPARISON WITH ALTERNATIVE SYSTEMS</td>
<td>129</td>
</tr>
<tr>
<td>An Odd-Lot Auction Market</td>
<td>130</td>
</tr>
<tr>
<td>The Size of the Unit of Trading</td>
<td>133</td>
</tr>
<tr>
<td>Alternative Types of Dealer Organization</td>
<td>144</td>
</tr>
<tr>
<td>X. POSSIBILITY OF IMPROVEMENT WITHIN THE SYSTEM</td>
<td>146</td>
</tr>
<tr>
<td>Necessity of Services of Associate Brokers</td>
<td>146</td>
</tr>
<tr>
<td>The Uniformity of the Differential</td>
<td>150</td>
</tr>
<tr>
<td>The Size of the Differential and the Rate of Profit</td>
<td>152</td>
</tr>
<tr>
<td>Competition of Odd-Lot Houses</td>
<td>155</td>
</tr>
</tbody>
</table>

| APPENDIXES | |
| A. History of the Odd-Lot Business | 161 |
| B. Cost of Clearing Odd Lots | 166 |
| C. Glossary | 169 |
| D. Statistical Data | 175 |

INDEX | 191 |
INDEX
INDEX

Activity of trade in stocks, effect on dealers' profits, 49-51
Arbitrage, 131, 169
Associate broker, 14, 146-50, 169
Auction market, for odd lots, 130-33
Balance of odd-lot trading, 4-8
effect on dealers' inventories, 38-44
relationship to fluctuations of stock prices, 56-66
Basis market, 27-28, 169
Bid price, 169
Bid and asked prices, 169 trading on, 10, 163
Boston Stock Exchange, 96, 103-104
Broker, 169
Chicago Stock Exchange, 96-97
Clearing, 125-26, App. B, 169
Commission house, 169
Competition of odd-lot houses, 155-58
Complaints, adjustment of, 18-21
Conduit theory of withholding, 75-77, 126
Costs, operating, as affected by possible change in the unit of trading, 138-40
Cushion theory of withholding, 69-71
Dealer, 169
Decentralization, financial, 109-111
Differential, 169
fairness of, 152-55
relationship to profits, 54-56
uniformity of, 150-52
Distribution to small stockholders, 4-5
Dually listed stocks, 93-94
England, tax on stock sales, 90
France, turnover tax on stock transfers, 90
Gross profit of odd-lot dealers, amount, 55
as affected by, consolidation of odd-lot houses, 158
market activity, 49-51
price fluctuations, 52-56
syndication, 52
Holland, stock turnover tax, 89-90
Inactive stocks, 37, 79-81, 132, 135-36
Interstate commerce, in securities, 91-92
Interstate competition, between stock exchanges; Ch. VII
Inventories of odd-lot dealers, 12
effect of round-lot trading on, 30-32
policy concerning, Ch. V
relationship, to balance of public buying, 32, 38-44, 72-75
to movements of stock prices, 72-74
size, 180-81
Limit, selling through, 23-27, 170
Limited order, 15, 170
Listed securities, 170
Long, 170
Low-priced stocks, balance of trade in, 8
unit of trading, 143-44
Market order, 15, 170
Member firm, 170
Net profit of odd-lot dealers, 153-55
New York state transfer taxes, 87, 94-95
Odd-lot market,
  history, App. A.
  organization, 10-14
Odd-lot trading,
  speculative or investment character, 3-4
  volume, 1-3, 175-77
Order room, 18-21
Orders,
  classification, 15
  execution, 14-16
Over-the-counter market, 170
Panic days, withholding on, 81-85
Position, 170
Post 30, 117-18, 127, 133, 142-44, 152
Price fluctuations, effect on gross profit, 52-56
Profit of dealers. See Gross profit and Net profit
Protection of the customer, 16
Regulation T, of the Board of Governors of the Federal Reserve System, 119-21
Round lots,
  price, possible influence of odd-lot dealer operations on, 22-23
  trading, by odd-lot dealers, 30-32, 178-79
  costs of, 45-49
  effect of inventory position, 30-32
  technique of, 32-38
Round numbers,
  price of stock, 34-36, 137-38
  size of odd-lot trades, 4
Sales sheets, 19
Short sales, 11-12, 170
Simpson, Kemper, 71-76, 130n
Size of orders, 134-35
Spread, 170
Stop order or stop-loss order, 170
Stopped sale or stopped stock, 170
Specialist, 115-17, 162
Specialist odd-lot dealers, 13, Ch. VIII
Speculation, in inventories, 53-55
Splitting of round lots, 38n
Split-ups, effect on balance of odd-lot trading, 5
Stabilization of stock prices, 69-71
Syndication, 51-52
Tape, 171
Tape-lateness, 147-49
Taxation of stock transfers, Ch. VI
Three-minute rule, in trading dually listed stocks, 94, 98-100
Ticker, 140-41, 171
Transactions, in odd lots, 182-88
Unit of trading, size of, 133-44
Unlisted trading, 102-104, 171
Withholding, Ch. V.
THE RECOVERY PROBLEM IN THE UNITED STATES
710 pages. 1937. $4.00.

THE NATIONAL RECOVERY ADMINISTRATION
By Leverett S. Lyon and Associates
947 pages. 12mo. Cloth. 1935. $3.50.

THE ECONOMICS OF OPEN PRICE SYSTEMS
By Leverett S. Lyon and Victor Abramson
165 pages. 12mo. Cloth. 1936. $1.25.

THE ECONOMICS OF FREE DEALS
By Leverett S. Lyon

ADVERTISING ALLOWANCES
By Leverett S. Lyon
125 pages. 12mo. Cloth. 1932. $1.00.

LABOR RELATIONS BOARDS
By Lewis L. Lorwin and Arthur Wubnig
477 pages. 12mo. Cloth. 1935. $3.00.

THREE YEARS OF THE AGRICULTURAL ADMINISTRATION
By Edwin G. Nourse, Joseph S. Davis and John D. E
570 pages. 12mo. Cloth. 1935. $1.50.

CREDIT POLICIES OF THE FEDERAL RESERVE System, 1922-1931
By Charles O. Hardy,
374 pages. 12mo. Cloth. 1932. $2.50.

THE INCOME STRUCTURE OF THE UNITED STATES
By Maurice Leven
177 pages. 12mo. Cloth. 1938. $1.50.

WAR DEBTS AND WORLD PROSPERITY
By Harold G. Moulton and Leo Pasvolsky
498 pages. 12mo. Cloth. 1932. $3.00.

THE ST. LAWRENCE NAVIGATION AND POWER PROJECT
By H. G. Moulton, Charles S. Morgan and Adah Lee
675 pages. 12mo. Cloth. 1929. $4.00.

THE AMERICAN TRANSPORTATION PROBLEM
By Harold G. Moulton and Associates
915 pages. 12mo. Cloth. 1933. $3.00.