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THE NEW YORK STOCK EXCHANGE.

A Description of the New Exchange —Where the Association Gets the Money for the Huge Expenditures —The Tickers, etc.

By S. Mac Reynolds in Saturday Evening Post.

Never did the great builders of more leisurely civilizations display more prodigality in gratifying the supposed whims of their deities than has the committee in charge of the appointments of the new Stock Exchange. On the floor of the board-room, where trade is conducted, are five hundred telephones, and terminals for thirty different systems of pneumatic tube service. Three and one-half miles of ventilator pipes permeate the building. On the east wall of the board-room is a glass annunciator or bulletin-board checkered into twelve hundred colored squares, one for each member of the Exchange. The lighting of a green incandescent in any member's square indicates that he is wanted at the Broad Street entrance, and the burning of a red bulb apprises him of a telephone call. By these and numberless other devices, which only showers of gold could command, the magic palace produced by the fabled Aladdin is, in strict verity, put to shame.

The World Building, which when built was deemed by many to be one of the wonders of the world, cost $1,125,000. But the cost of construction has cheapened since then and the Tract Society Building, twenty stories in height and more elegant in its appointments, was completed for $900,000.

Yet the new Stock Exchange, the equivalent of only five stories in height, cost in excess of $3,000,000, and is perhaps the most beautiful edifice of the sort in the world.

But whence came this wealth so profusely and lavishly spent? Did the members of the Exchange each contribute their quota of it for the sake of having more commodious quarters in which to transact their business? Or as popularly supposed, did the dues of members accummulate in the treasury from year to year until the $3,000,000 was available?

If neither, then what individual undertook the financial responsibility for a contract involving such a sum! The Stock Exchange as a whole could not be held responsible, for the Stock Exchange is merely a voluntary association or society without a charter and legally unaccountable for contractual obligations.

The organization named in its by-laws, The New York Stock Exchange, is limited to a membership of twelve hundred for the convenient dispatch of business on the floor by all who desire to attend. This business is chiefly buying and selling stocks and bonds for outside clients, and members are permitted to charge a commission of one-eight of one per cent. on the par value of every transaction. The demand for their services is so great that an average of probably $200,000 a day or $70,000,000 a year is distributed among the members in commissions. As one must be a member, or in the parlance of the street, "have a seat" on the Exchange, to share in this golden flood, "seats" are worth from $65,000 to $75,000.

Yet the organization derives no income from the sale of seats, all original seats having long been sold, though any member is at liberty to sell or bequeath his seat to any one acceptable to the Membership Committee.

One of the anomalous functions which the members of this strange society have assumed is that of insuring one another's lives. The plan is mutual, and, we might say, simple to the point of absurdity. Mortality tables are ignored as being the visionary theories of long-haired philosophers; the youth and the aged, the weak and the strong, are all, unless they be chronic invalids, insured for a like amount ($10,000) and pay the same premium—ten dollars on initiation and ten dollars on a member's death.

The surplus after these policies are paid goes into an investment fund, which, according to agreement, is to remain inviolate until it amounts to $1,000,000, when the proceeds will be devoted to the reduction of the death assessments. This fund, which was established in 1892 with $10,000, is said to be worth now approximately $25,000. The conduct of the insurance department is ridiculously unscientific, but it conduces to easy bookkeeping, and the members, viewing it as a benevolent enterprise anyway, are not critical.

There seems to be a quite general impression that the Exchange is supported by membership dues. This is erroneous. An intiation fee of $1000 and the insurance assessments mentioned above are the only obligations which a member owes the association. Not only has it been seen to that outsider shall pay the expenses of the organization, but that they shall salary the officers and committeemen and rear them a palace of unexampled splendor withal. The money comes in three separate streams, whose sources are:

First. The railroad. industrial and banking corporations whose securities are traded in on the Exchange.

Second. The telegraph and cable companies holding exclusive franchise for the dissemination of the market reports.

Third. The holders of the local "ticker" privilege.

Before any stock or bond may be bought or sold on the floor of the Exchange the corporation issuing it must make application to the Committee on Listed Securities, which is appointed by, and subordinate to, the ominipotent Governing Committee. If the corporation is willing to submit to an investigation regarding its assets and liabilities and shall be found to have been in solvent existence for at least one year, and if its securities are estimated to be of sufficient importance in the financial world to add appreciably to the business of the Exchange, they are "listed" and may be openly sold in the board-room. If a corporation declines to make a statement of its financial condition, then its stocks are placed on the trading list as "unlisted securities," as the vernacular of the street paradoxically expresses it. An unlisted stock possesses all the nominal advantages of a listed stock, but is always viewed with suspicion by traders.

The sum paid by a corporation for the privilege of being permitted to have its securities dealt in by these brokers varies according to its capitalization. For every million dollars, par value, of securities admitted to the trading privilege, the Exchange exacts an annual fee of fifty dollars.

What the Privileges of the Exchange Cost

The Erie Railroad Company, for example, is capitalized at $290,000,000, of which $65,000,000 is preferred stock, $112,000,000 common stock, and $113,000,000 bonds of various issues and kinds. On the preferred stock at fifty dollars for each million the company pays an annual fee of $3250; on the common, $5600, and on the bonds, $5650, or a total of $14,500 annually. The United States Steel Corporation pays $50,900 for the listing of its stock. All told, the securities called on the floor of the Exchange aggregate in round numbers as follows:

Railroad stocks, $4,500,000,000; miscellaneous stocks, $3,500,000,000; railroad bonds, $5,000,000,000; miscellaneous bonds, $500,000,000; or a grand total of $13,500,000,000. At fifty dollars a million, this yields $675,000 each year for the support of the Exchange.

What amount the telegraph companies contribute for the privilege of reporting the market to outside towns is unknown save to the immediate parties to the contract. There is scarcely a city of importance between the two oceans, however, where some bucket-shop or brokerage house does not pay liberally for these reports, and it may be fairly assumed that the Exchange receives no inconsiderable percentage.

The "ticker," which has become well-nigh ubiquitous in the larger centres of population, is an ingenious contrivance which receives and prints telegraphic messages in plain English, instead of the dots and dashes of the Morse alphabet. From 10 A. M. to 3 P. M. thousands of these little animated machines throughout the East click off a record of the sales as fast as they are made. The company owning the ticker franchise rents them to brokers, restaurateurs and keepers of public resorts generally for from ten to twenty-five dollars a month each and divides the proceeds with the Exchange. These three sources of income—listed securities, telegraph and ticker franchise—are estimated to yield not less than $800,000 annually—a sum greater than the total revenue of any one of the States of New Hampshire, Delaware, Florida, Montana or Washington. And this is but a ninth part of the amount received by the members in commission.

In mitigation of the apparent extravagance displayed by the Exchange in providing itself new quarters, it should be said that the money in the treasury was accumulating at such a tremendous rate and the current expenses were so insignificant — $5,000 annually to the president, a similar amount to the secretary, a few hundred to certain members to attend occasional committee meetings, maintenance of building, stationery, and so on, comprised about all the demands on the institution—that it was a knotty problem how to spend the surplus. The majestic pile of Georgian marble which was finally decided on was a happy solution of a rare problem, and will ever stand a pride of the metropolis. Yet the deed to this magnificent structure, built with the revenues of the Exchange, is in the name of an outside corporation, the very existence of which is practically unknown even to the frequenters of Wall street. This corporation received its charter at Albany in 1863, under the name of The New York Stock Exchange Building Company, and was created for the sole purpose of supplying a medium in which might vest the title to all real property owned by the Exchange. It is the Exchange's legal self, having a recognized standing before the law; an artificial person possessing all the rights of property and the courts; things which to the Stock Exchange, being unchartered, are denied.

Though not organized for profit, the Building Company is a stock company and in form resembles other corporations. It has an authorized capital of $350,000, divided into shares of the par value of $500. Two hundred and fifty thousand dollars of this stock has been issued and the remainder is held in the treasury. Its assets in January, 1902, were stated by the president to be $2,000,000, but with the accumulation of additional property and the construction of the new building, the real estate held in its name should be worth $5,000,000 and its stock $10,000 a share.

Possibly there is another reason for this dual, me and myself, existence. There are occasions when it is quite desirable to have a legal status, and then there are times when even a stock exchange might wish to melt into airy nothingness, and it may have occurred to some wise head sometime that the institution would be more secure from harassing legislation if it possessed at once a tangible and an intangible form.

A body for powers, a spirit for responsibilities; a husband to conduct the business and a wife to hold the property, as it were. Whether any such motives was responsible for this twin arrangement can only be conjectured, but it can hardly be doubted that an immense amount of annoyance has been escaped by it. The country legislator harbors a profound antipathy for stock operations of all kinds, and a State-given charter would have offered a most vulnerable point of attack.

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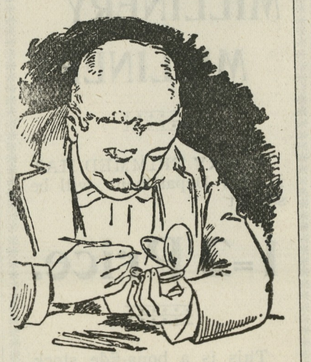

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