Volumes in Market Continues Higher Despite Margin Boost

By ELMER C. WALZER
UPI Financial Editor

New York –(UPI)– The stock market has been rising steadily on heavy volume since the Federal Reserve Board raised margins to 90 per cent on Oct. 16.

Elmer Walzer

This bears out what Wall Street said at the time of the rise namely that this was a cash market anyhow and that it would pay little if any heed to higher margins.

Now there is talk that margins will be boosted to 100 per cent. This, of course, is pure Wall Street gossip because the Federal Reserve doesn't give out any advance warnings of what is to come.

If there is a rise, it probably will be considered a mere token of the Federal Reserve in its fight on inflation – a move probably aimed at discouraging use of corporation or other funds in the call money market even to provide a trifling amount of credit.

The FRB has been in charge of margins since the Securities Act of 1934 became effective on Oct. 1 of that year.

Sliding Scale

The first margins were a sliding scale from 25 per cent to 45 per cent. On Feb. 1, 1936 the scale was raised to 25 to 55 per cent, and on April 1, 1936 it was made a flat 55 per cent. Since then margins have ranged from 40 per cent in the period from Nov. 1, 1937 to Feb. 5, 1945, and 100 per cent, which is no margin at all.

The 100 per cent rate was effective on Jan. 21, 1946 and held until Feb. 1, 1947 when it was cut to 75 per cent.

Just about a year ago - on Jan. 16, 1958 – the margin rate was cut from 70 per cent to 50 per cent.

That was a time of recession for business and it was believed the move was made to generate strength in stocks and thus encourage business to recover. Business hit its low in April and rose rapidly – but not as rapidly as the market.

Credit Tightened

With the market rising and using more credit – though not much overall – the Federal Reserve tightened credit all around, including a rise to 70 per cent in margins on Aug. 5. On Oct. 16, the present rate of 90 per cent was set.

Low margins are supposed to aid volume and high margins to cut volume. But experience has proved the market goes its merry way with high or low margins.

Last year when margins were raised activity increased to a four-million share day rate. And 1958 was the biggest year in volume since 1930.

Margin is the amount one must put up in buying a stock on credit. At 90 per cent, a trader must put up $90 to buy $100 of stock. He can borrow the other $10.

This is a contrast with credit for home purchases. The buyer of a house needs only put up $10 to borrow $100 of mortgage money.

The Stock Exchange has defended margin trading, although it has held that this type of operation is more for the experienced trader than the novice.

President Keith Funston of the exchange says the new, unsophisticated investor should be encouraged to buy only for cash.

And the exchange also holds that margin trading is not necessary speculation. In a survey it found 75 per cent of margin trades by public individuals were investments rather than speculations.

And even if it were speculation it wouldn't necessarily be evil, say exchange spokesmen. They point out that speculation by those with experience, knowledge and finances, helps to broaden the market generally.

Quotes From the News

By UNITED PRESS INTERNATIONAL

Bonn, Germany–West German Chancellor Konrad Adenauer, on the possibility of Russia starting a war over the German problem:

"They (the Russians) want to control the world, not a dead world, but . . . power over a living world. For this reason, the question facing them is how to come closer to their goal by means of the cold war."

West Point, N.Y.–Army football coach Earl (Red) Blaik, on resigning after 18 years as head coach:

"It is with a deep sense of personal regret that I leave the military academy. I have concluded, however, that this is the proper time for me to withdraw from college sports."

Washington–Rep. Paul A. Fina (R.-N.Y.) on plans to reintroduce his federal lottery bill:

"This painless form of taxation will bring into the coffers of our government over $10 billion a year in added revenue which can be used for tax cuts and part payments towards our tremendous ever-increasing national debt."

Springfield, Mass.–Mrs. Charles Papineau, on the mysterious breaking of 36 panes of glass in her house during the past seven days:

"You're standing in front of a window and all of a sudden it breaks in front of you. It's awful to sit here and have windows break all around you–without any visible explanation."

Jackson, Miss.–Mrs. Rubel Burleson, on the task of identifying her 20 children:

"It's hard to keep them straight. Sixteen of the children still live at home."

Errol Flynn Sued Over Dog's Attack

Los Angeles – (UPI) – Errol Flynn and his wife were sued Tuesday by a former model who charges the couple's pet terrier dog caused her to fall and sustain serious injuries.

Zori Jannings said the Flynns' dog was threatening her children recently and she stumbled over it when she attempted to "rescue" the youngsters. Also named in the Superior Court suit was Irwin O. Brettauer, operator of apartment bungalows where both the Flynns and Jannings live.

Steelmakers See Production Higher in 1959

Pittsburgh – (UPI) – Steelmakers look for production to rise as much as 30 per cent in the U.S. in 1959 reflecting:

–Continued economic recovery;

–A need to replenish inventories;

–The possibility of a strike and a subsequent price increase.

Top steelmen place 1959 output somewhere between 105 million and 115 million tons, against 85 million in recession-pitted 1958.

They told United Press International they have been encouraged by the gains recorded in the last three months of 1958 and look forward to continued operations at about 75 per cent of capacity.

Inventories Liquidated

The accumulation of inventories, liquidated drastically during the recession is expected to add some five million tons to the first-half production total. This is apart from what will be required to meet immediate demand for products ranging from pins to new cars.

Steelmen say that if a supply pinch develops at all during 1959 it will come during the second quarter. That's when steel users will be building up inventories as a hedge against a possible strike when the three-year steel labor contracts expire June 30.

Experts figure that the mid-year negotiations will be rough and that a strike will be a distinct possibility.

United Steelworkers President David J. McDonald contends that steel firms can boost wages substantially without hiking prices. But company officials say any increase in wage costs must be met by higher productivity per worker or covered by price increases.

Where will the 1959 steel demand come from?

The biggest customer is the construction industry and construction officials are looking for their 1959 volume to run about five per cent over 1958.

Another big customer is the auto industry. (About 1.7 tons of steel goes into the average car.) And auto makers look for their production to rise about 30 per cent over the sharply depressed level of 1958.

Appliance Industry Gain

Analyzing other markets, experts predict:

–A 10 per cent gain in the appliance industry reflecting a rise in personal income, employment and housing starts.

–Normal annual growth in the container industry, one of the few bright spots in the 1958 steel record.

–Farm equipment will hold at the 1958 level with purchases coming early in the year.

–Railroads will increase their use of steel for rails and trackwork by 45 per cent, but continue their drastic curtailment of freight car purchases with output falling to 33,000 cars compared with 99,000 in 1957.

–Steel consumption by the shipbuilding industry to drop 30 per cent with demand for new oil tankers gone completely.

–Small gains to be registered in steel use by oil and gas drillers and the mining industry.

–National defense expenditures to boost the demand for aircraft and ordnance steel.

ROK Policeman Fired for Actions

Seoul — (UPI) — The South Korean government today fired a policeman who barged into the U. S. Embassy here Tuesday during a clash over the controversial security bill.

Vice Foreign Minister Kim Dong Jo expressed his "sincere regret" over the incident, which he said resulted from "ignorance" on the part of the patrolman, Suh Dae Won.

The government took its action after Sam Gilstrap, counsellor of the U. S. Embassy, lodged a formal protest with Kim.

Eyewitnesses said the policeman dashed into the embassy and tried to drag out a United States Information cameraman who had photographed a clash between several hundred policemen and about 500 demonstrators over the new security bill.

MAKE CONVENTION BID

Philadelphia – (UPI) – The Pennsylvania delegation will make a bid in excess of $700,000 to bring the 1960 Republican National Convention here, it was announced Tuesday. The bid will be presented to the GOP Site Committee meeting in Des Moines, Iowa, on Monday.

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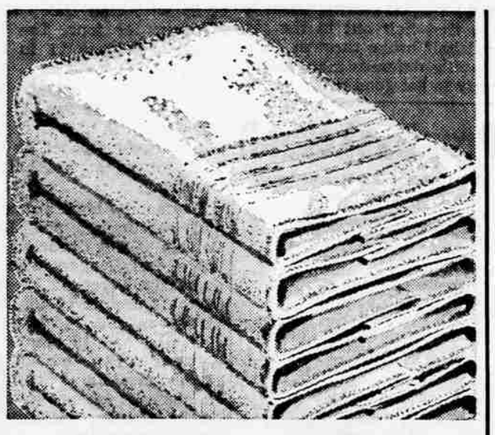

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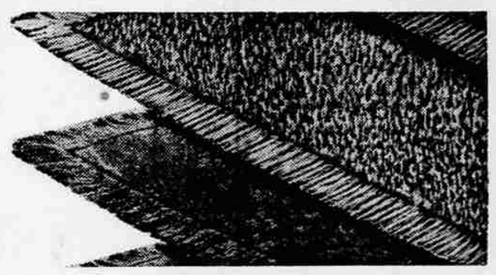

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