# *Keeping the Power Spread Around*

Remarks By

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at a luncheon marking the thirteenth anniversary of

DON BRAMAN & ASSOCIATES, INC.
*Financial Public Relations*
MINNEAPOLIS

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Sheraton Ritz Hotel · Minneapolis, Minnesota
Tuesday, March 9, 1971

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INCORPORATED

NEW YORK SAN FRANCISCO BOSTON CHICAGO HOUSTON LOS ANGELES LONDON

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In 1890 this country enacted a great law called the Sherman Act — the first of our federal antitrust laws. It prohibits monopolies and outlaws agreements which stifle competition. We did not create an agency in Washington to register or regulate monopolies or review agreements to fix prices. We simply outlawed them.

Some people think the Sherman Act and the other antitrust laws are just old-fashioned economic theories that may or may not be pertinent today.

Not here in the Middle West. Here, with your experience with the railroad trusts, the meat monopolies, the oil combines — you know, as others should, that the antitrust laws are really political expressions of how we Americans want to live our lives — how we think the country ought be organized to let people grow and be happy. What we really mean by our belief in the antitrust laws is that we think you get a better kind of person and a better kind of country, certainly better ideas, when power is spread around rather than concentrated all in one place.

We believe that diversity and competition — whether in politics, business or sports — make for a healthier society.

Which brings me to the subject of my talk today. And hopefully to something about which I know something.

There are some big decisions about to be made on Wall Street. And they will affect Main Street. They will decide where and how stocks are to be traded in this country. In a capitalistic system, such decisions are crucial since they help determine who will own stocks, which may in turn determine in some measure whether we should continue to believe in the system.

I am convinced that the people still calling the shots in the securities industry — the New York Stock Exchange — have too much power and little inclination to look out for your interests or mine.

As I say, the big issue on Wall Street is first where stocks will be traded — and the second is how.

On the first — my answer is simple. Stocks should not be traded just on Wall Street — they should be traded all over the United States. That's where the investors are. That's where the brokers are. That's where the markets should be. I am utterly unimpressed with the New York Stock Exchange's arguments in favor of a single, monopolistic market in New York City. This country is simply too big and diverse to be satisfied with just one of anything. That's why I favor the growth of the regional exchanges and the over-the-counter market.

Let me tell you about one new change that promises a peaceful revolution we should all support.

By means of an electronic system called NASDAQ (National Association of Securities Dealers Automated Quotations), the stock quotations of thousands of over-the-counter market makers have been brought together for visual display on TV screens in thousands of brokers' offices across the country. By simply pressing a few buttons, all the bids and offers in a particular stock are simultaneously displayed. In the language of the economists, NASDAQ creates a competitive central market out of many single markets. And what's good for competition is good for you.

Understand what this system does. Your broker here in Minneapolis has a TV screen on his desk. You call him up and say you want to buy 100 shares of your favorite over-the-counter stock. He pushes a couple of buttons and finds that among the ten or twelve dealers who make a market in the stock, the best offer is by a market maker in Los Angeles. While you are still on the phone he calls up that dealer and buys the 100 shares for you. And you know precisely at what price. It is just that simple.

Furthermore, NASDAQ will collect information on all transactions executed on the system for daily publication of total volume and price ranges. Eventually, NASDAQ will be able to report individual trades on a real time basis in the same manner as the New York Stock Exchange ticker tape.

For these reasons, NASDAQ is unique. It makes the over-the-counter market a true central market for the whole country — and without the fancy, expensive requirement of stock exchange seats costing $500,000. Without high fixed commissions. Without excluding non-members. Without reducing competition among competing market makers.

The fact that NASDAQ puts all market makers in competition with one another is very important to you. If you have only one bank in town, you're not going to get the lowest interest rate. The same holds true for gasoline, bread and milk. So, too, for stocks. You will get a better price for your stock if you have two or more dealers competing for your business.

This should be understood. The collection or "centralization" of all bids and offers in a stock was always one of the great selling points of an exchange as opposed to the over-the-counter market. An exchange brought all bids and offers to one place. The "post" was supposed to make these accessible to everyone equally. For a while the New York Stock Exchange did just that — and for a modest commission. But then the Exchange got too big and too powerful. It raised the rates for outsiders. It excluded the public. It neglected its job to police its own members. Slowly, the business began to go elsewhere, where the costs were less and the ways of doing business more efficient.

NASDAQ does all that the Exchange was meant to do — and does it more efficiently and at less cost because the brokers can deal directly — first by computer with all the market makers and then by telephone with the best market maker.

NASDAQ also allows for considerable improvement in surveillance and regulation of market activity. It goes far beyond the present capability of the New York Stock Exchange to observe, judge and control whether the public has gotten the best price. NASDAQ will automatically store every bid and offer in its memory. NASDAQ will record every price paid, the time of execution and the volume traded by every market maker. With all this information in its memory, NASDAQ will be able to reconstruct everything that happened whenever there is a question of manipulation or other misuse.

The NASDAQ memory, plus the competition among market makers, will go a long way toward better regulation of the industry — meaning regulation in the public interest.

While NASDAQ has moved rapidly toward a more centralized market for unlisted stocks, there appears to be a counter movement in listed stocks — a decentralization of markets as both large and small investors discover that the best price for listed stocks is not always on the New York Stock Exchange.

As the first step in getting competition back into action for listed stocks, this decentralization is one of the healthiest developments in years. Witness the public and government pressure for lower commissions, negotiated rates, and easier rules for joining the exchanges. All have come about because of this competition.

Once people realize that it's okay to let listed stocks be sold wherever there are good markets, then it should be easy to make all the different markets compete closely with each other.

To use the in-house jargon of Wall Street, the way to "centralize" the present markets for listed stocks is by spinning off the New York Stock Exchange ticker tape into a publicly held company and permit it to carry all trades in all listed stocks wherever transacted.

Emphatically, the way not to "centralize" the marketplace is by government regulation. At this point in time, it is not the Regulators who are regulating the Regulated. It is the Regulated who are regulating the Regulators. And don't you forget it!

It is a hard fact that the Securities and Exchange Commission has permitted the New York Stock Exchange to block its members from going to other markets even when they know with a certainty that in some stocks other markets are better.

It is a hard fact that the Securities and Exchange Commission permitted the New York Stock Exchange, joined by the American Stock Exchange, to gang up on the National Association of Securities Dealers and take listed stocks off NASDAQ.

Two clear cases of illegal boycotts — not in the public interest — and the Commission did nothing. Hopefully, the Commission — with help from the Antitrust Division of the Justice Department and from the Congress — will get back to regulating the Regulated.

Sheer American love of efficiency says that when a customer drops around to his broker to check the market, he ought to be able to see on one tape all trades in the listed stocks he is following.

Sheer American love of honesty says that a broker charged with getting you the best price for your listed stock ought to be able to press one button, get all quotes and then buy directly where the best price is offered.

Talk to any of the good computer men who are working in the securities field — and there are some darn good ones — and they will all tell you that today's equipment is more than able to handle the task.

Twenty million share days have become commonplace for the New York Stock Exchange in 1971. That is big business. And yet the plant, the equipment, the thinking is hopelessly 19th century. No wonder costs go up rather than down.

In every other area of the securities industry it's the same story. The creative answers to the big problems are not coming from the New York Stock Exchange.

Perhaps after all, as the framers of the Sherman Act thought, there is something incompatible between monopoly and creativity.

By contrast the National Association of Securities Dealers has come up with a terrific new idea in its NASDAQ system. They should be complimented for their leadership. And their new system should be allowed to follow its natural potential and provide an example of how the markets in listed securities should be organized. The efforts of the New York Stock Exchange to dominate the National Association of Securities Dealers, to choke off NASDAQ's growth and limit it to unlisted securities should be rejected.

The same approach applies to a nationwide stock ticker tape. The New York Stock Exchange resists all change. Because it owns that stock ticker tape, its leaders say only trades on its floor can be reported on it. That's a little like saying that only descendants of the original subscribers to the Bell Telephone System should be able to make telephone calls today. In 1971, no nationwide, government protected, communications system — like the stock ticker tape — should be in the control of a private club.

And so I come full circle — back to my opening remarks. The antitrust laws are not mere economic theories which may or may not be right for the 1970's. They are tangible expressions of our political and social philosophy — of the way we want to live in this country. Because we are a big, powerful country, we like to keep the power spread around so that people and ideas can grow.