

Obviously there is great temptation. In the 1920's the pools would buy stocks and push them up, and then sell them out. They were frequently at the mercy of the market itself, because they didn't have unlimited funds.

Now you get the large investment companies that decide to purchase a particular stock, and they begin accumulating it. They push it up, push it up and up. And then they figure that the price is about right and it is ripe for selling and then they sell. They walk away from it; they sell it out. I don't know whether there is anything wrong in that.

Now if you find that there is a deliberate manipulation, somebody says there is a short supply in this and I am going to push it up and then get out, fine. I don't know, I would hesitate to suggest that it is as calculated as that, that it happens.

You see, the U.S. Trust Co. has a policy on this. They have graded investments as A, B, and C. I have forgotten just what the categorization is. But they would say A is a stock which is low, let's buy it at such and such a price. B is a stock that we want to own, but it is above a proper price and maybe we had better not buy it now. And C is a stock which we would like to have in our long-term portfolio, but it is too high, we won't buy it.

Well, now they are constantly moving stocks from A to B to C, depending upon the price. Well, suppose you buy a stock at A, which is a stock it wants in its portfolio for long-term holding. And so they begin putting it into the accounts that they have, and it begins moving up. When it reaches B, they will continue to hold it in the accounts that have it, but they won't buy it for future accounts. Then when it gets up to C, they decide to sell it, because it is no longer attractive in terms of price.

Well, could anybody suggest that that is speculation, deliberately pushing up stock? Now if this becomes uniform policy within Wall Street, if this is a practice of many trust companies and many institutions and various funds, then you are going to get the problem that they will all be grading many of these stocks in the same way, and one of these days they are going to put them all or a great many of them in the C category and they will just try to walk away from them and there will be no market. This is what happened in 1929. This is always what happens in pool operations.

It is one of the great problems where people are always anticipating what other people will anticipate prices ought to be. I suggest you read this chapter in Keynes, on long-term expectations.

Mr. KEITH. I would like to but my constituents have more pressing needs that keep me from it, but I may have to get to it.

One last question. Many witnesses have been talking about the economies of size.

Mr. LIVINGSTON. Of scale; yes.

Mr. KEITH. That is a phrase that has come up. Do you feel that a large bank like U.S. Trust should on behalf of its accounts turn to the third market rather than buying on the exchanges, to give them the advantages of economies of size?