

## May 1, 1975 and the Beginning of Negotiated Commissions

By Peter Low

It was with great interest that I read about the death of author Chris Welles in the June 22, 2010 edition of *The New York Times*.

The obituary announced that Welles wrote a book in 1975 called *The Last Days of the Club*, which “detailed the demise of the old Wall Street monopoly and the rise of new institutions that would eventually dominate financial power in America.”

Welles referred to The NYSE as a cartel, defined by the dictionary as “a combination of independent enterprises designed to limit competition or fix prices.” The term is often used to describe the 12 oil producing nations of OPEC.

In the early 1970’s the SEC mandated that beginning on May 1, 1975 all commissions would have to be freely negotiated between customers and their brokers. Previously brokerage charges were fixed. For example, if the commission on 100 shares was \$35 a 1,000 share lot would cost \$350 and 10,000 shares would earn the executing firm \$3,500. In addition, the basic rate was determined by the price of the stock. The same mathematics applied to floor brokerage which usually came to a percentage of the full commission. In addition, Welles also predicted that this “unbundling” would lead to the catastrophic loss of NYSE market share with most volume being executed off the floor at sharply reduced rates.

From 1974 until 1979 I was a floor partner for Ernst & Company. Howard Ernst began in 1924 trading foreign bonds and during World War Two expanded into the specialist business. By the time I joined the company it had evolved into a medium size, full service brokerage firm which covered retail and institutional accounts, and was active in the bond and the over the counter markets. It also offered clearing services, and by then its specialist book traded in such well known companies as Exxon, Toys R Us, and May Department Stores.

After a number of strategy meetings in anticipation of “May Day” the partners of Ernst & Company were prepared to be flexible on commission

rates. As a result, various bank and investment management clients were eager to use the firm to execute a number of large size orders that had previously been delegated to pay for research products. There were times when order flow was quite prolific and I still remember days when I handled six or seven situations simultaneously, each at a different geographical location on the floor.

A few “research boutiques” such as Baker Weeks, H C Wainwright and Auerbach, Pollack and Richardson were adversely affected by the changed rate structure and eventually closed or were forced to merge. However, many discount retail and institutional firms along with the large, major investment banks did well in the new environment. Actually, Charles Schwab used the opportunity to build a major brokerage company.

In 1998, long after my departure to become an independent broker, Ernst was sold to Investec, a South African company focusing on banking and asset management.

In spite of Welles’ predictions, negotiated commissions ushered in a period of record setting volume at the NYSE. However, seat prices reflected his dire outlook and tumbled from \$515,000 in 1969 to a low of \$35,000 in 1977. During that time *The New York Post* and *The Daily News* ran stories reporting that a New York City taxicab medallion was worth more than a NYSE membership. Since the amount that I owed on my seat was greater than its selling price I very quickly learned the unforgettable lesson of how leverage can work both ways.

In all fairness, Welles was eventually correct in much of what he foresaw although his prescience was three and a half decades early. In an April, 1973 article for *New York Magazine* he wrote that “...most of the business left on the exchange floor will sooner or later disappear into a computer...” In the same piece he also opined that “...Wall Street has yet to take advantage of the billions of dollars annually which could be saved through more complete automation of the trading process.”

It was quite inconceivable in the mid 1970’s to predict that about 30 years later the NYSE would initiate a series of consolidations resulting in the formation of NYSE Euronext, Inc. which continues to grow in its 218<sup>th</sup> year. Today the company is a publicly-owned, global enterprise offering

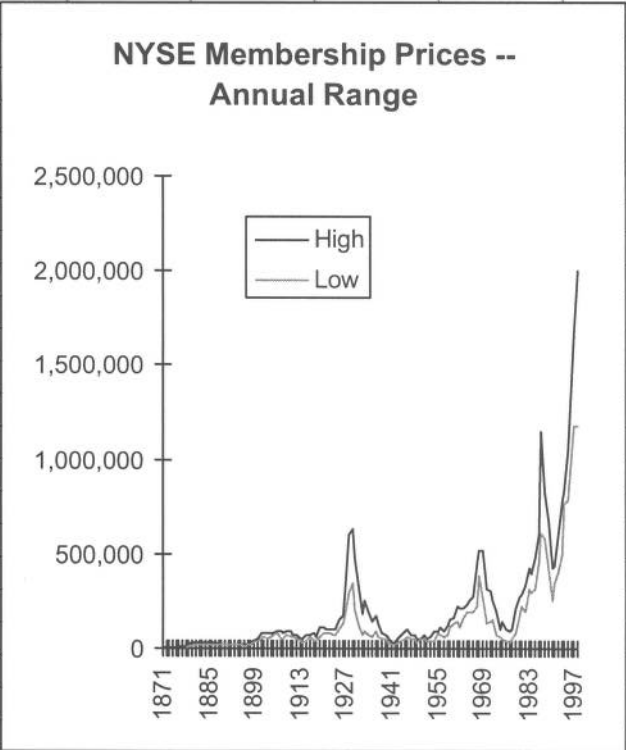
technological services while aggressively competing to trade and clear many classes of derivatives in addition to its traditional cash equity products. There is no doubt that further, momentous changes are in store as NYX continues to evolve.

The accompanying chart tracks the history of NYSE membership prices from 1868 to December 30<sup>th</sup>, 2005 after which the seat market was closed in anticipation of a March, 2006 public offering. It clearly reflects the extreme fluctuations and volatility which are ever present throughout American financial history.

### **Editor's Note**

I would like to thank two friends who were helpful in my efforts to gather research for this article. Bill Behrens, my former partner, and current Vice Chairman of Fulcrum Securities, for his knowledge of Ernst & Company history, and Mike Robbins, former director of Griswold Company and The NYSE, for providing access to his vivid personal recollections along with his extensive files of Wall Street lore.

Year	High	Low
1868	8,000	7,000
1869	7,500	3,000
1870	4,500	4,000
1871	4,500	2,750
1872	6,000	4,300
1873	7,700	5,000
1874	5,000	4,250
1875	6,800	4,300
1876	5,600	4,000
1877	5,800	4,500
1878	9,500	4,000
1879	16,000	5,100
1880	26,000	14,000
1881	30,000	22,000
1882	32,500	20,000
1883	30,000	23,000
1884	27,000	20,000
1885	34,000	20,000
1886	33,000	23,000
1887	30,000	19,000
1888	24,000	17,000
1889	23,000	19,000
1890	22,500	17,000
1891	24,000	16,000
1892	22,000	17,000
1893	20,000	15,300
1894	21,300	18,000
1895	20,000	17,000
1896	20,000	14,000
1897	22,000	15,500
1898	29,800	19,000
1899	40,000	29,500
1900	47,500	37,500
1901	80,000	48,500
1902	81,000	65,000
1903	82,000	51,000
1904	81,000	57,000
1905	85,000	72,000
1906	95,000	78,000
1907	88,000	51,000
1908	80,000	51,000
1909	94,000	73,000
1910	94,000	65,000
1911	73,000	65,000
1912	74,000	55,000
1913	53,000	37,000
1914	55,000	34,000
1915	74,000	38,000
1916	76,000	60,000



Seatsalepm

1917	77,000	45,000						
1918	60,000	45,000						
1919	110,000	60,000						
1920	115,000	85,000						
1921	100,000	77,500						
1922	100,000	86,000						
1923	100,000	76,000						
1924	101,000	76,000						
1925	150,000	99,000						
1926	175,000	133,000						
1927	305,000	170,000						
1928	595,000	290,000						
1929	625,000	350,000						
1930	480,000	205,000						
1931	322,000	125,000						
1932	185,000	68,000						
1933	250,000	90,000						
1934	190,000	70,000						
1935	140,000	65,000						
1936	174,000	89,000						
1937	134,000	61,000						
1938	85,000	51,000						
1939	70,000	51,000						
1940	60,000	33,000						
1941	35,000	19,000						
1942	30,000	17,000						
1943	48,000	27,000						
1944	75,000	40,000						
1945	95,000	49,000						
1946	97,000	61,000						
1947	70,000	50,000						
1948	68,000	46,000						
1949	49,000	35,000						
1950	54,000	46,000						
1951	68,000	52,000						
1952	55,000	39,000						
1953	60,000	38,000						
1954	88,000	45,000						
1955	90,000	80,000						
1956	113,000	75,000						
1957	89,000	65,000						
1958	127,000	69,000						
1959	157,000	110,000						
1960	162,000	135,000						
1961	225,000	147,000						
1962	210,000	115,000						
1963	217,000	160,000						
1964	230,000	190,000						
1965	250,000	190,000						
1966	270,000	197,000						

Seatsalepm

1967	450,000	220,000						
1968	515,000	385,000						
1969	515,000	260,000						
1970	320,000	130,000						
1971	300,000	145,000						
1972	250,000	150,000						
1973	190,000	72,000						
1974	105,000	65,000						
1975	138,000	55,000						
1976	104,000	40,000						
1977	95,000	35,000						
1978	105,000	46,000						
1979	210,000	82,000						
1980	275,000	175,000						
1981	285,000	220,000						
1982	340,000	190,000						
1983	425,000	310,000						
1984	400,000	290,000						
1985	480,000	310,000						
1986	600,000	455,000						
1987	1,150,000	605,000						
1988	820,000	580,000						
1989	675,000	420,000						
1990	430,000	250,000						
1991	440,000	345,000						
1992	600,000	410,000						
1993	775,000	500,000						
1994	830,000	760,000						
1995	1,050,000	785,000						
1996	1,450,000	1,050,000						
1997	1,675,000	1,175,000						
1998	2,000,000	1,175,000						
1999	2,650,000	2,000,000						

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## Historical Seat Prices

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### Final Announced Seat Sales (1999-2005)

Announced Seat Sales	
Date	Price
02-Feb-99	2,000,000
01-Mar-99	2,600,000*
15-July-99	2,500,000
23-August-99	2,650,000
22-September-99	2,550,000
22-October-99	2,300,000
17-December-99	2,300,000
07-January-00	2,000,000
03-April-00	1,700,000
25-April-00	1,650,000
25-April-00 (2 sales)	1,700,000
23-June-00	1,650,000
15-September-00	2,000,000
20-September-00	2,000,000
13-November-00	2,000,000
15-December-00	1,700,000
02-February-01	2,000,000
06-April-01	2,300,000
02-October-01	2,300,000
18-October-01	2,300,000
29-October-01	2,200,000
19-February-02	2,500,000
19-February-02	2,475,000
05-June-02	2,550,000
10-July-02	2,500,000
30-October-02	2,300,000
26-November-02	2,000,000
7-February-03	1,750,000
19-March-03	1,500,000
16-June-03	1,825,000
14-July-03	2,000,000
12-August-03	2,000,000
05-September-03 (3 sales)	2,000,000
08-September-03 (2 sales)	1,900,000
18-September-03	1,850,000
21-October-03 (2 sales)	1,350,000
05-November-03	1,300,000
18-November-03	1,500,000
20-November-03	1,500,000

17-December-03	1,500,000
18-December-03	1,500,000
25-February-04	1,500,000
12-March-04	1,500,000
29-March-04	1,510,000
27-April-04	1,510,000
27-May-04	1,510,000
02-June-04	1,515,000
14-June-04	1,510,000
22-June-04	1,460,000
25-June-04	1,450,000
08-July-04	1,400,000
03-August-04	1,350,000
03-August-04	1,300,000
03-August-04	1,250,000
17-August-04	1,250,000
27-August-04	1,150,000
14-September-04	1,205,000
27-September-04	1,210,000
28-September-04	1,200,000
05-October-04	1,200,000
13-October-04	1,200,000
15-October-04	1,150,000
15-October-04	1,100,000
25-October-04	1,050,000
29-October-04	1,035,000
10-November-04	1,075,000
24-November-04	1,040,000
24-November-04	1,035,000
02-December-04	1,100,000
14-December-04	1,030,000
14-December-04	1,050,000
05-January-05	1,025,000
06-January-05	1,015,000
06-January-05	1,000,000
10-January-05	1,000,000
11-January-05	975,000
24-January-05	1,200,000
01-March-05	1,475,000
01-March-05	1,500,000
03-March-05	1,500,000
21-March-05	1,540,000
29-March-05	1,550,000
30-March-05	1,550,000
06-April-05	1,615,000
06-April-05	1,600,000
08-April-05	1,550,000*
13-April-05	1,620,000

	1,620,000
21-April-05	1,800,000
25-April-05	2,400,000
28-April-05	2,400,000
29-April-05	2,600,000
29-April-05	2,500,000
2-May-05	2,400,000
6-May-05	2,400,000
10-May-05	2,400,000
19-May-05	2,100,000
25-May-05	2,200,000
25-May-05	2,220,000
31-May-05	2,250,000
1-June-05	2,300,000
1-June-05	2,370,000
2-June-05	2,200,000*
3-June-05 (4 sales)	2,380,000
6-June-05	2,380,000
6-June-05	2,450,000
7-June-05	2,500,000
13-June-05	2,460,000
17-June-05	2,500,000
20-June-05 (3 sales)	2,500,000
24-June-05 (3 sales)	2,500,000
30-June-05	2,410,000
1-July-05	2,410,000
5-July-05	2,410,000
6-July-05	2,410,000
25-July-05 (2 sales)	2,600,000
3-August-05**	3,000,000
16-August-05	2,800,000
24-August-05	2,800,000
30-August-05	2,900,000
8-September-05	2,860,000
22-September-05	2,600,000
29-September-05	2,800,000
7-October-05	2,800,000
19-October-05 (2 sales)	2,850,000
20-October-05	2,900,000
24-October-05	2,900,000
26-October-05	2,950,000
27-October-05	3,000,000
1-November-05	3,000,000
14-November-05	3,025,000
16-November-05	3,250,000
17-November-05	3,250,000
22-November-05	3,500,000
01-December-05	4,000,000**

	4,000,000
05-December-05 (2 sales)	4,000,000
06-December-05 (2 sales)	4,000,000
07-December-05	3,500,000
08-December-05 (2 sales)	3,500,000
14-December-05	3,625,000
16-December-05	3,275,000
20-December-05	3,600,000
23-December-05	3,700,000
27-December-05	3,750,000
28-December-05	3,700,000
29-December-05	3,600,000
29-December-05	3,550,000
29-December-05	3,510,000
29-December-05	3,505,000
30-December-05	3,575,000
30-December-05	3,550,000

\* In the market for membership without options-trading rights

\*\* Record