Charles Merrill and the Democratization of Stock Ownership

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Charles Merrill, co-founder of Merrill Lynch.

In 1947, when a *Forbes* survey identified the nation's fifty outstanding business leaders, most of them ran large manufacturing concerns, like General Motors and U.S. Steel. Only Charles E. Merrill, a sixty-two-year-old college dropout, made his living on Wall Street. In the early twentieth century, Merrill turned the investment world on its head with the notion of selling stocks and bonds to middle-class retail customers. With Merrill as their champion, securities would become a consumer product that would hold as important a place in America's commercial culture as automobiles and life insurance policies.

After working on Wall Street for several years, Merrill started his own firm in January 1914. Several months later, he was joined by his friend, Edmund Lynch. As he became a specialist in underwriting public offerings for supermarket and department store chains, Merrill considered applying their merchandising methods to his financial products. Sensing an opportunity in the late 1930s, he merged with a large brokerage firm, E. A. Pierce & Co., and became a zealous advocate for the retailing of stocks. As Merrill worked hard to restore the public's shattered trust in the capital markets during the Depression, his firm's large army of account executives developed a populist image, for which they acquired the sobriquets "We the People" and "The Thundering Herd." And through a sustained campaign of public education and advertising, Merrill Lynch strived to fulfill its leader's long-standing goal to "bring Wall Street to Main Street."

Charles Merrill's crusade was validated only in the 1950s, when the New York Stock Exchange supported his efforts, mainly by allowing investors to buy stock on installments. While the investment world wasn't truly democratized until after his death in 1956, Charlie Merrill undeniably started it all. Today, his success can be measured by more than 30 million Americans who own stock through mutual funds, retirement accounts, and pension plans.

A Young Man from Florida Gains a Foothold on Wall Street

Charles E. Merrill was born in 1885 in the hamlet of Green Cove Springs, outside Jacksonville, Florida. His father, Charles Morton Merrill, was a country doctor who also ran the town's drugstore. Here young Charlie showed an early eye for shrewd merchandising, boosting the shop's milkshake sales by adding grain alcohol and hiking the price.

Merrill headed north for higher education after graduating from high school. But he had to drop out before earning his degree at Amherst College due to temporary family financial difficulties. He tried law school but quit and even played a season of semiprofessional baseball in Mississippi. Another job as a reporter on the West Palm Beach *Tropical Sun* gave him what he would later call "the best training I ever had. . . . [I] learned human nature."

Despite his wanderings, Merrill became engaged to a woman he'd met at Amherst. And when her father offered him a job as a $15-a-week office boy in his textile company, Patchogue-Plymouth Mills, Charles Merrill moved to New York. He arrived in Manhattan as the Panic of 1907 shook the commercial world, but the crisis proved to be an opportunity. With credit scarce in the wake of the panic, company owners were forced to resort to extraordinary measures to survive. In an act of desperation, Merrill's boss sent his twenty-two-year-old aide to try to obtain a loan from National Copper Bank. Displaying the force of personality and salesmanship that would later mark his career, Merrill finagled his way in to see the bank president, and purportedly coaxed from him a $300,000 loan.

"My two years [at Patchogue-Plymouth] turned out to be the equivalent of a university course in general, and credit, finance, cost accounting and administration in particular," he later said. But the job proved short-lived because the young bachelor found he wasn't ready for marriage. He preferred to frequent clubs and hang around the YMCA at 23rd Street where he met Edmund Lynch, a graduate of Johns Hopkins University, who made a living hawking soda fountain equipment. After Merrill broke off his engagement, he found it awkward to work for his ex-fiancée's father, so he took a job as the sole employee in the fledgling bond department of a Wall Street firm, George H. Burr & Company. He soon enlisted his friend Lynch.

It was at Burr & Co. that Merrill first articulated his innovative doctrine of securities marketing. Since Wall Street's typically wealthy clients were largely out of reach of an inexperienced broker without social connections, Merrill decided he would appeal to a different customer base. While Henry Ford was turning the Model T into the first democratic automobile, Merrill figured that bonds and stocks could be marketed as consumer products as well, In an attempt to reel in new prospects, he wrote an article entitled "Mr. Average Investor" in the November 1911 edition of *Leslie's Weekly.* "Having thousands of customers scattered throughout the United States is infinitely preferable to being dependent upon the fluctuating buying power of a smaller and perhaps on the whole wealthier group of investors in any one section," he wrote.

In 1912 the bond dealer became involved in another aspect of Wall Street business that would dictate his future strategy. George Burr wanted to underwrite a chain of stores run by Sebastian Kresge, and assigned his young executive the task of landing the client. Merrill not only won the account and helped Kresge sell $2 million in preferred stock, he also discovered a new retailing phenomenon in the process. Chain stores, groups of outlets owned by a single operator, were proliferating. By providing a wide selection of goods, the stores offered convenience, choice, and value. And within a matter of decades, they would change the way Americans shopped.

Merrill Becomes and Expert in Chain-store Financing

Propelled by a powerful impulse to be his own boss, Merrill set up his own shop at 7 Wall Street in January 1914. Edmund Lynch joined Merrill in July. They signed a co-partnership agreement and the firm's name became Merrill, Lynch & Co. The duo, both with little capital and experience but a lot of gumption, plunged head long into the financial services business. Following on his success with Kresge, Merrill sought and won a contract to underwrite the $6 million offering of a chain store called J. G. McCrory Co. Unfortunately, they were forced to postpone the issue when the Stock Exchange closed temporarily at the outbreak of World War I. The partners finally brought the oversubscribed issue public in May 1915, and netted Merrill $300,000. The same year, Merrill Lynch won the right to sell a secondary offering for Kresge. To handle their growing business, the entrepreneurs hired new staffers, among them Winthrop Smith, who would prove to be one of Merrill's most successful acolytes.

While most Wall Street executives viewed the chain store as a passing fad, Merrill recognized it as the future of American shopping. “Chain stores were no mystery to the investing public we reached,” he wrote. “Their families frequented them daily and noticed the increasingly large crowds that flocked to them. Yet [the stores’] securities didn’t have a broad market. I saw an opportunity to render a real public service and at the same time to make a great deal of money.”

Merrill adopted chain store-style marketing for the sale for securities. While he couldn’t offer coupons or special sales, he did the next best thing. In 1917, without the approval of the New York Stock Exchange (NYSE), he created the first advertisements ever run for Liberty Bonds, offering to sell them “without profit or commission.” He used them as a kind of loss leader. “People who start buying bonds from motives of patriotism will continue to do so because they are the most convenient form of safe investment,” he wrote, as quoted in Joseph Nocera’s book, *A Piece of the Action.* Although Liberty Bonds disappeared when World War I ended, this early effort to merchandise securities was a harbinger of Merrill’s future business style.

In the post-war decade, his company specialized in the public sales of grocery stores, department chain stores, and other retailers. And in most instances, Charles Merrill exercised the underwriter’s prerogative to retain a large chunk of stock for himself. “If a stock is good enough to sell, it’s good enough to buy,” he said. But it was more than a marketing technique. For as the stock appreciated Merrill became wealthy indeed. And as a major shareholder he had a say in the companies’ development. Merrill even took control of a chain at one point: In 1926 his firm bought Safeway Stores and then arranged for a number of other grocery companies to join the chain. The new Safeway company would go on to survive brutal competition and remains one of the largest and most successful food retailers.

A Prophet of Doom Weathers the Depression

As the long-running bull market approached its speculative climax in the late 1920s, Merrill sensed impending disaster. Displaying remarkable foresight, he sent a letter to clients, dated March 31, 1928, Merrill wrote: “Now is the time to get out of debt. Sell enough securities to lighten your obligations or pay them off entirely. . . We do not urge that you sell securities indiscriminately, but we do advise in no uncertain terms that you take advantage of present high prices and put your own financial house in order.” Like most prophets of doom, he was largely ignored. At the end of 1928, Merrill offered retiring President Calvin Coolidge a lucrative partnership in his firm on the condition that Coolidge speak out against rampant speculation. The president declined. Indeed, Merrill’s foreboding view diverged so sharply from his colleagues’ collective wisdom that he came to doubt his own sanity. But a visit to a psychiatrist cleared up any doubts. The doctor had already taken Merrill’s advice and sold his holdings: “Charlie, if you’re crazy, then so am I.”

Merrill resumed his doomsaying. In 1929 he wrote a letter to Lynch explaining his desire to reduce the firm’s exposure. “The financial skies are not clear. I do not like the outlook and I do not like the amount of money we owe,” he wrote. “If I am wrong in insisting upon liquidation, then that is a luxury which I can afford and in which you and all of my partners should indulge me. . . .” Merrill’s prophecies were vindicated in October 1929. While the Crash bankrupted many stock brokerage firms, Merrill Lynch remained solvent. But Merrill foresaw that a recovery would be a long time coming. In February 1930 he transferred the firm’s customer accounts and much of his capital to the brokerage firm E. A. Pierce & Co., which had survived due to an unusually strong capital base.

Disentangled from the wreckage of Wall Street, Merrill weathered the remainder of the Depression looking after his own investments and participating in the management of the chain stores he had helped finance. He picked up the pieces of a company called MacMarr and merged its 1,300 stores into Safeway in 1931. With that, Safeway was larger than every food-store chain except A & P and Kroger. The following year, Merrill founded *Family Circle*, a mass-circulation magazine that was sold at his grocery stores. For all his success in retailing, in the 1930s, however, Wall Street was never far from his mind.

Merrill Brings Merchandising to the Brokerage Industry

As the economy slowly emerged from its paralysis, Merrill saw that the time was ripe to bring his gospel of merchandising back to the brokerage industry. In E. A. Pierce he saw a new pulpit. By acquiring troubled firms, Pierce had grown into America's largest brokerage house, with thirty-nine outlets sprinkled throughout the United States. Though economic conditions were improving, Pierce, which had over-extended itself, nonetheless was close to insolvency. In late 1939, Winthrop Smith told Merrill that the firm could turn a profit if it had some fresh capital.

Merrill was cautious. The Crash had soured the public on Wall Street's products. In November 1939, a Roper poll showed that one in eleven American citizens thought the Stock Exchange was a meat wholesaler. Furthermore, Wall Street remained what it had been for most of its history: an insider's club run by and for the benefit of its members and their select group of friends. The entire system was geared toward servicing large investors whose trades and assets could generate fat commissions. The larger firms, few of which had offices outside New York and other major cities, were simply not interested in pitching their services to small investors. As the *New York Times* noted in 1940, "Too few houses have been geared to handle the $1,000 account at a profit."

Among Wall Street's heavy hitters, only Merrill believed there was money to be made servicing small accounts. He had learned from his retail chain experience that Americans with modest means could provide a lucrative customer base. So he decided to gamble on E. A. Pierce. He engineered a merger of Merrill Lynch and Pierce in January 1940, gaining 56 percent ownership by injecting $2.5 million of his personal fortune into the new entity. The combined firm had its fiscal house in order, and already was an established presence in several major cities. The new partnership produced a powerhouse brokerage.

Merrill immediately started proselytizing for a transformation in the marketing of stocks and bonds. As Homer Shannon later wrote in Forbes, Merrill had realized "that the crash of 1929 and the decade of depression which followed called for complete reorientation on the part of the commodity and security dealer, and of the investment banker." The merger was announced in January 1940, but did not become operational until April 1, under the new name Merrill Lynch, E. A. Pierce & Gassatt. (Although Lynch had passed away in 1938, Merrill insisted that his name be included in the full title of the partnership.) When it opened for business, the company announced its consumer-oriented strategy. As Merrill put it: "We must bring Wall Street to Main Street—and we must use the efficient, mass merchandising methods of the chain store to do it."

The first imperative was to control costs. He looked at the labor-intensive process brokers followed to place and complete orders on the floor of the exchange. In 1940 it cost about fourteen dollars for each transaction, which in turn brought in only ten dollars in revenues to the firm: a losing proposition. Finding that 85 percent of business was conducted by telephone, Merrill decided "it is perfectly damned nonsense to maintain a gilded palace to take care of 15 percent." So he moved the company's headquarters to a lower-priced building (70 Pine Street), and had murals painted on the walls depicting chain stores like Safeway, McCrory, and Kresge.

To rally the troops for the new crusade, Merrill held a two-day conference at the Waldorf-Astoria. But he realized that indoctrinating his employees with the new gospel was just a beginning. More important, Merrill had to convince the public of the efficacy of his new strategy. As he wrote in a 1940 letter to the firm's partners and managers: "We in the security business have a job to do—a job of re-establishing faith in the security markets as a place for sound investment. . . . There will be no secrets in our plans or operations."

The most visible manifestation of the new openness was the publication of an annual report. As the company's longtime division director in charge of sales wrote: "During the nine months of operations in 1940, we ended up with a loss of $308,000. Mr. Merrill decided that our customers were entitled to know how we had fared, so we published our First Annual Report." In 1941 the notion of a private partnership laying bare its balance sheets for all the world to see was unprecedented. Wall Street firms preferred to operate under a veil of secrecy. But Merrill viewed such public reports as a key to earning public trust. They also garnered valuable free publicity. Newspapers and magazines ran large articles on the company's earnings, and the public came to view the firm's operating results as a measure of Wall Street's overall performance, much as Wal-Mart's results serve as a barometer of the retail climate today.

Merrill's new way of doing business made him a heretic in the clubby world of lower Manhattan, but he was driven by a sense of mission: He loved to quote from the speech in Shakespeare's *Henry V* in which the young king addresses his brothers and cousin as "we few, we happy few, we band of brothers." But Merrill's band was aging. In 1944, when the firm conducted about 10 percent of the NYSE's volume, the average account executive was fifty-two years old. Merrill saw the entrenched brokers, schooled in Wall Street's older ways, as an obstacle, and decided he needed fresh, eager, young recruits whom he could train in his own image. So in 1945 the firm set up a school that would turn World War II veterans into brokers. Carefully selected students received stipends for enrolling in the six-month cram course. Upon graduation, the missionaries were sent off to branch offices in outposts like Omaha, where the hundredth office was opened in December 1949.

Merrill's was among the first Wall Street firms to open branches in smaller cities. It was also the first to pay the newly minted account executives straight salaries rather than commissions. This signaled to customers that brokers weren't seeking to make a quick buck by selling them bad securities.

Just as the campaign began to gather steam, its leader was forced to withdraw from the field of battle. After suffering several heart attacks in 1944, Merrill was prohibited by his doctors from going into the office. While operating control of the firm passed to managing partner Winthrop Smith, Charles Merrill remained the firm's animating spirit. He continued to monitor the brokerage chain's daily operations from his homes in Palm Beach, Southampton (Long Island), and Barbados, spending most days on the telephone, issuing commands to senior executives.

Reaching New Clients through Promotions and Education

Believing that educated consumers would be more willing to invest, the firm took its message to the masses through a variety of media: Merrill Lynch produced company and industry research reports, and its analysts churned out massive amounts of informational literature. The firm published easy-to-read pamphlets on topics like "Hedging" and "How to Read a Financial Report." In 1947, 75,000 free copies of the biweekly *Investor's Reader*, the equivalent of a grocery store circular, were distributed to potential clients. All the literature was available by mail and at the firm's many branch offices.

In a practice uncommon for a brokerage house, the firm plowed substantial amounts of revenue into advertising. In 1947, when it earned $6.2 million and was the nation's largest retailer of stocks, Merrill Lynch spent about $400,000 on advertising. The firm ran 2,774 separate advertisements in 288 different newspapers in 1949, decades before the "When E. F. Hutton talks, people listen" campaign became famous. "Merrill Lynch's advertising objectives are, first, to educate and, second, to attract people to the store," said Jack Adams, an executive at Albert Frank-Guenther Law, the advertising agency that managed Merrill Lynch's account. The ads ranged in size from small tombstone-like notices to massive treatises on investing. Many of them were written by Louis Engel, who joined the firm in 1946 as an advertising director. He ran a full-page ad in the *New York Times* entitled, "What Everybody Ought to Know About This Stock and Bond Business." It provided straightforward answers to questions like: What are stocks? What are bull and bear markets? How do you do business with a broker?

All these efforts earned Charles Merrill and his company the acclaim of the financial press. "As an individual, he has done more to make the business of marketing securities respected than any other person," *Forbes* wrote in 1947. But the public remained wary. A 1949 Federal Reserve Board Survey found that 69 percent of American families with incomes of over $3,000 a year were opposed to investments in common stocks. And in a 1949 consumer survey the St. Paul (Minnesota) *Dispatch-Pioneer Press* found that 90 percent of that city's residents in the top salary brackets had never purchased a share of stock or a corporate bond. Similar statistics could be found in cities across the country.

This exasperated Charles Merrill to no end. "Americans spent more than $9 billion last year for new automobiles, and yet were willing to invest only $580 million of new money for industry by the purchase of common stocks," he groused. The problem, as he saw it, existed because his colleagues in the securities industry had little interest in spreading the good word. In a 1950 letter to his customers, Merrill wrote: "The great majority of people in the securities business haven't lifted a finger to help in the public educational job that must be done." That year his firm's 106 offices and 3,389 employees serviced 104,800 accounts.

Merrill's Dream Materializes with an Assist from the NYSE

The 1950s provided a nurturing environment for Merrill's experiment. Over the course of the decade the Dow Jones Industrial Average rose more than fivefold, from 120 to 679. Helped by American dominance in world trade, government programs like the GI Bill, and a steadily growing economy, a large segment of the nation's population began to attain middle-class financial security and unprecedented economic comfort. In 1952, 82 percent of families had life insurance; 52.8 percent maintained savings accounts; 41.9 percent had U.S. savings bonds; 20.9 percent had annuities and pensions. Despite these solid statistics, few had stocks. The Brookings Institution found that just 6.49 million Americans (or 4.2 percent of the population) owned stocks. And most of them were wealthy by the standards of the day; the 75 percent of the population making less than $5,000 per year accounted for just 32 percent of stock ownership.

But during the cold war, buying stock came to be seen—and promoted—as an act of patriotism, a powerful weapon in the nation's arsenal against Soviet expansionism. "Our goal should be to have every American a stockholder in business enterprise," said General Motors chairman Alfred Sloan. "Under such circumstances the trend toward socialism can be retarded. It might even be averted."

Such cold war rhetoric was echoed by New York Stock Exchange vice president Ruddick Lawrence in January 1954, when he introduced the Monthly Investment Plan (MIP) as part of a belated NYSE campaign to increase public confidence. The MIPs let consumers buy stock on installment. Under the plans, investors could inject a fixed amount of money every month, from as little as $40 to as much as $999. The money went to buy shares of a single stock, even if only in fractional terms. Lawrence called the program "an idea for Democratic Capitalism—the conviction that Americans everywhere should have the opportunity to own their share of American business." MIPs, of course, played perfectly into Merrill's long-standing efforts to bring small investors through the doors of his branch offices. By April 1954 the firm had sold 40 percent of the 10,885 MIPs in place, because, like Safeway, it had branches all over the country and a recognizable brand name. In 1954 the NYSE's 608 member firms had 1,247 offices across the United States; Merrill owned 119 of them.

The Modern Corporation

As the largest securities firm and the chief advocate of small investors, Merrill Lynch remained an industry pioneer in the decades after its founder's death. Charles Merrill, who dubbed partnerships "antiques," had long agitated for the New York Stock Exchange to let its broker-members to incorporate. Such a move would signify the full arrival of modern business practices to the loosely managed club of Wall Street. More importantly, it would improve the liquidity and financial stability of firms.

The NYSE finally allowed its members to incorporate in 1953. But legal difficulties followed, and Merrill's death three years later prevented the firm he had founded from taking advantage of the opportunity until 1958. In December of that year, with 117 partners, 126 branch offices and $43 million in capital, Merrill Lynch was the first major Wall Street partnership to incorporate.

Thirteen years later the company again pioneered corporate organization on Wall Street. In 1970 the New York Stock Exchange finally gave its member firms permission to do what they had been helping other companies do since the nineteenth century: sell their stock to the public. And in June, 1971. Merrill Lynch became the second brokerage firm to go public, selling four million shares to the public at $28 each. In the years since, virtually every major brokerage house has followed suit. Today, of Wall Street's major investment firms, only Goldman Sachs remains a private partnership.

Merrill Lynch augmented the NYSE's campaign with its own. In 1954 the firm outfitted three blue-and-silver buses with desks, wireless telephones, stock market tickers listing prices of seventy stocks, and eager account executives. From bases in Chicago, Boston, and New York, they fanned out into the sprawling new suburbs, parked in the lots of supermarkets, train stations, and factories, and touted the wonders of dividends and capital appreciation throughout the heartland. This exercise, said Winthrop Smith, was "nothing more than a logical outgrowth of our belief that investment service has got to be made much more widely available. . . ." The idea was to make it seem as if stocks could be purchased as easily as potato chips.

No venue was too small or too big for Merrill Lynch's promotional juggernaut. In May 1955 the firm helped sponsor a "World's Fair of Investing," a kind of revival meeting, in Manhattan's cavernous 71st Infantry Regiment Armory on Park Avenue and 34th Street. After going through exhibits staged by blue-chip companies like General Motors and IBM, visitors were funneled into a Merrill Lynch "seminar on investing," an animated display of the mechanics of buying stocks and bonds. The following year Merrill Lynch set up a stock information and corporate exhibition center smack in the middle of bustling Grand Central Terminal, joining the newsstands, florists, and food stands that put their products where the crowds were.

Merrill Lynch Becomes a Wall Street Institution

The relentless promotion paid off. Merrill Lynch became the best-known brokerage firm in America and abroad, When members of the Soviet press came to visit New York City in October 1955, they stopped at two bastions of capitalism: the floor of the New York Stock Exchange and the headquarters of Merrill Lynch at 70 Pine Street.

As more and more Americans shifted assets out of low-interest savings accounts and into the stock and bond markets, the number of individual shareholders rose to 8.6 million by the end of 1956, a 33 percent increase over 1952. The NYSE census estimated that over 500,000 people were joining the American stockholder family each year. Between 1952 and 1956 the median income of shareowners actually fell from $7,100 to $6,200, and the estimated median age of the 2.14 million shareowners added between 1952 and 1956 was thirty-five. "The day of golf club contacts and rich classmate contacts is gone, what with the redistribution of wealth," Louis Engel said in 1954. "Now you sell ten shares and twenty shares to lots of people. We feel the broadening base of stock ownership is a damn good thing. We still have some big accounts, of course. Go after the Dooleys and you get the Stuyvesants, too," Engel said.

Charles Merrill didn't live to see the fulfillment of his prophecy. Determined to ignore physical limitations, he remained a legendary carouser into his eighth decade. And he was always game for a fresh challenge. In 1953 he underwent experimental treatment for his heart ailment, a treatment based on findings of the Atomic Research Project. His health improved somewhat, and he rallied the troops for what would be some of his last exhortations during a two-day executive meeting at the Hotel Statler. In the weeks before his death in October, 1956, it was only fitting that Merrill should insist on watching over the public disclosure of the firm's results in its annual report. One partner recalled that, "It could not be released until he approved every word and illustration."