New Strategies for Stockbrokers: Merrill Lynch & Co. in the 1940s

Edwin J. Perkins

Department of History
University of Southern California

In recent years business historians have expressed renewed interest in the entrepreneurial tradition of scholarship which flourished at the Harvard Business School in the post-WW II era and which produced, among others, the acknowledged dean of modern business history, Alfred D. Chandler, Jr. [Chandler, 1956]. This article focuses on the new strategies adopted by the senior partners of Merrill Lynch & Co. during the early 1940s, which was an extremely critical period in the firm's development [Merrill Lynch Corporate Archives]. These innovative polices reflected the vision of Charles Merrill, who had created the enterprise a quarter century earlier. His goal was to promote greater public trust in the honesty and reliability of Merrill Lynch brokers, with the hope of generating more trading volume by customers, old and new. Recognizing the enormous success of life insurance companies in soliciting the savings of middle class households, Merrill sought to persuade more U.S. households to invest in common stocks and to make them customers of his revitalized brokerage house.

Although prominent investment bankers have attracted the attention of financial historians, almost nothing has been published in scholarly circles about firms in the more mundane brokerage field [Carosso, 1970, 1979, 1987; Chernow, 1990; Sobel, 1991]. This article fills in a narrow slice of a very wide knowledge gap. Despite his significant contributions to the development of modern capital markets, little has appeared in print about the career of Charles Merrill.

Merrill actually had three rather distinct and extremely successful business careers. From 1914 to 1930, he was an underwriter and merchant banker; from 1930 to 1940, he shifted his attention to Safeway Stores, the national grocery chain, in which he held a controlling interest; and from 1940 to 1956 he headed what became, after two major mergers, the brokerage firm of Merrill Lynch, Pierce, Fenner & Beane. This last career on Wall Street was the most influential because of its impact on the institutional structure of the U.S. financial services sector. Merrill brought "Wall Street to Main Street"—a catch-all phrase which communicates in dramatic language how his brokerage firm was able to convince tens of thousands of upper-middle class households in mid-sized cities across the nation to invest regularly in common stocks. By 1940 the firm operated branch offices in most of the nation's 100 largest cities.

BUSINESS AND ECONOMIC HISTORY, Volume Twenty-eight, no. 2, Winter 1999.
Copyright © 1999 by the Business History Conference. ISSN 0894-6825

In a book published in the 1984 on merchant bankers in London in the nineteenth century, Stanley Chapman noted how frequently the innovators in financial services had been outsiders–ambitious men from Scotland, Wales, and other outlying areas of Great Britain, plus numerous Jewish families from the European continent [Chapman, 1984]. Merrill fits the same outsider profile in most respects. Never a member of the inner circle of influential financiers in the nation's financial center, for years he challenged many of the outdated traditions of Wall Street firms and the restrictive rules of the New York Stock Exchange. Born near Jacksonville, Florida, in 1885, his father was a resort town physician who relied heavily on the patronage of affluent northern tourists who traveled southward to a warmer climate by steamboat and later by rail during the winter season [Derr, 1989]. Merrill attended grammar and secondary schools in Florida before being sent northward, where he attended Amherst College in Massachusetts for two years and the University of Michigan for one year. His grades at Amherst were satisfactory, but his performance slipped badly at Michigan in a pre-law curriculum which proved intellectually unappealing [Hecht, 1985].

Leaving the Michigan campus without a degree, Merrill headed for New York. After a few years in the financial department of a textile manufacturer, he resigned and joined Burr & Co., a small firm on the fringes of Wall Street that specialized in arranging short and intermediate financing for companies consistently strapped for cash. Burr offered Merrill the opportunity to establish a underwriting department with the mission of locating investors for the bond issues of several of the firm's regular clients. At about this time, Merrill casually met and hired Edmund Lynch, someone about his age who had also recently arrived in New York seeking fame and fortune.

In January 1914, Merrill opened his own small office. After two or three months of promising results, he recruited his friend Lynch, and the partnership of Merrill, Lynch & Co. was formed. Thus began Merrill's first career on Wall Street [Baskin, 1989; Baskin and Miranti, 1997; Carosso, 1970; Smith and Sylla, 1993]. The two principals were bright, ambitious, and lucky–a sure-fire combination for success. Merrill was the strategist; Lynch took care of the details. Like many new firms in the securities field, the partners offered brokerage services to retail customers, a function with only modest income potential, and they simultaneously pursued small and medium-sized underwriting deals in the $1 to $3 million range for corporate clients with no, or little, prior access to capital markets. Given the fact that companies in established sectors like railroads and steel dealt only with the elite investment banking houses that were capable of underwriting new issues totaling in the tens of millions of dollars, Merrill tried to identify alternative possibilities with growth potential. He settled on providing underwriting services for the heretofore neglected retail sector of the economy [Lebhar, 1963].

Chain stores were a relatively new phenomenon in retailing in the post-WW I era, tracing their origins back to the 1880s [Tedlow, 1990]. Relying on cost savings, which arose from purchasing merchandise in bulk from whole-

salers and manufacturers, combined with vigorous price competition with low volume retailers, grocery and variety stores (often called five-and-dime stores) spread their tentacles rapidly in the 1910s and 1920s, and their entrepreneurial CEOs often sought additional capital to finance further expansion. Merrill Lynch forged close links with several major chains, among them Kresge and McCrory's in the variety store business.

Merrill's most enduring business relationship in the chain store sector was with Safeway Stores, a company with origins in southern California [Cassady and Jones, 1949; Sicilia, 1997]. Merrill had a penchant for what today we usually call merchant banking. Whether a given underwriting transaction involved the issuance of bonds, preferred stock, or common stock or, alternatively, a mix of securities, Merrill was frequently eager to acquire a sizable block of his client's common stock for intermediate or long-term investment. In the mid-1920s Merrill Lynch acquired a controlling interest in Safeway Stores. Under Merrill's guidance, Safeway Stores expanded rapidly throughout the western half of the nation, with forays into other regional markets as well.

Sensing that the stock market was ripe for a sharp correction in March 1928, Merrill mailed a form letter to all the firm's retail customers urging them to review carefully their current portfolios and to curtail drastically any debts associated with the purchase of securities. Behind the scenes, Lynch and most of the junior partners were dubious about Merrill's warnings, but the founder's judgment, although slightly premature, proved justified by events in October 1929. After the stock market crash, Merrill decided to end his meteoric career on Wall Street; Lynch withdrew as well. The two senior partners transferred their entire retail operations, which consisted of six branches, to E. A. Pierce & Co., a midsize brokerage chain with offices in approximately 30 cities. Merrill and Lynch became limited partners in the Pierce organization with no active involvement in its management.

In 1930 Merrill launched his second career—perhaps most accurately described as a mini-career since his lifestyle reflected something fairly close to semi-retirement. His main activity was monitoring his investment in Safeway Stores. One of the nation's first bi-coastal businessmen, Merrill lived most of the year in New York and Florida, but took the train, or airplane, several times annually to the west coast to confer Safeway executives about strategic matters. If necessity arose, he arranged his schedule to spend several weeks, or months, in California.

In the mid-1930s Merrill became engaged in a long and fierce battle with an organized group of independent mom-and-pop grocery store owners who tried to convince Californians to enact a prohibitive tax on the multiple outlets of all chain stores. The tax bill passed the state legislature, but its implementation was put on hold until the voters had the opportunity to consider the measure in a statewide referendum. In the end, citizens rejected the tax, opting for the low prices of the chains over other societal considerations.

During this hot political contest, Merrill became acquainted with Ted Braun, an aspiring public relations consultant in Los Angeles, who conducted extensive public opinion polls in an effort to understand the attitudes of both

urban consumers and the producers of grocery items in agricultural areas. Reliable techniques for polling were still in their infancy in the 1930s, so Braun was somewhat of a pioneer. Based on the public's responses, Braun helped shape a well-financed advertising campaign that, by stressing straightforward factual information, not exaggerated hype, informed citizens about the positive impact that chain stores could have on household budgets. One of the significant side-effects of this contest, for our purposes here, was that Ted Braun had gained the confidence of Charles Merrill.

During the 1930s, when Merrill was on an extended detour from his career in financial services, much happened in Washington that affected the climate on Wall Street. As a result of congressional investigations into the questionable practices of the leading investment banking firms and the security affiliates of major commercial banks, new federal regulations were enacted. Commercial and investment banking were institutionally separated in the Glass-Steagall Act of 1933 [Benston, 1990]. Congress created the Securities and Exchange Commission to provide federal oversight of the stock and bond markets [Seligman, 1982; de Bets, 1964; Parrish, 1970; McCraw, 1984; Burk, 1988]. Essentially a sunshine commission, the SEC enforced new laws relating to the sale and distribution of new issues and the trading of securities on secondary markets. The new rules and regulations were designed to provide the public with more pertinent information about issuing companies and governmental agencies, with an emphasis on the dissemination of truthful information. Risky stocks could still be promoted, but potential investors could not be told that the securities being offered fell into the category of the safe and sound. To put teeth into the enforcement process, brokers accused of misleading the public were subject to criminal prosecution, and if convicted, they usually spent some time in prison. The prospect of jail time for committing white-collar crimes in the securities field acted as a powerful deterrent. Merrill was not involved in this reform process although he sympathized with its goals and supported the outcome. E. A. Pierce did participate actively, however. He became one of the few Wall Street figures to appear before Congress and warmly endorse, rather than condemn, the regulatory proposals [Brooks, 1970, pp. 198-202].

In late 1940, Winthrop Smith, one of the junior partners at Merrill, Lynch & Co. in the 1920s and someone who had transferred to the Pierce organization in 1930 and later became manager of its Chicago branch, convinced Merrill to return to Wall Street. E. A. Pierce & Co. had suffered huge losses for several years, and with its capital nearly depleted, the brokerage chain faced the prospect of dissolution. An inactive, limited partner in the firm for the last decade, Merrill's investment of $1.8 million had nearly vanished in red ink. The root of the problem was that trading volume on the stock exchanges had fallen to extremely low levels; with commission revenues sinking, every brokerage house in the nation was in deep trouble. Ironically, the big decline in trading had not occurred immediately after the 1929 crash, but materialized later, after the sharp recession of 1937. (See Table 1) This second economic crises sapped the remaining optimism of traders and investors. Investment bankers had con-

ducted little new business throughout the 1930s. With the winds of war blowing again in Europe following Hitler's invasion of Poland in 1939, the New York Stock Exchange and other secondary markets for securities were on the ropes and hoping to avoid a knockout.

Where others saw nothing but gloom and doom, Smith thought he saw opportunity, and he lobbied Merrill, his mentor and fellow Amherst alumnus, to assume the role of white knight. Together, they orchestrated a rescue plan for the crumbling Pierce organization. The original Merrill Lynch & Co., which had continued to conduct a very limited business throughout the 1930s with a skeleton staff, was merged with E. A. Pierce & Co. in the winter of 1940.

In meeting the entrepreneurial challenge, Merrill forswore semi-retirement at age 55 and vowed to devote his time and energy to the mundane brokerage field. Merrill assumed the title of directing partner, which meant that he had the power to call the shots on all important matters. Lynch had died in 1938, but Merrill absolutely insisted on retaining his former partner's name in the firm title for sentimental reasons. Edward Pierce stayed with the reorganized firm but amicably agreed to fade into the background. Smith was named second in command, a position of trust that he held for the next decade and a half. Meanwhile, the management of Safeway Stores was left in the hands of a group of able executives. Since the bulk of Merrill's personal wealth remained tied up in Safeway common stock, its affairs were never far from his mind, but, with rare exceptions, he monitored the company's performance in only cursory fashion.

Before agreeing to return to the financial services sector, Merrill commissioned Ted Braun, the California public relations consultant, to supervise a thorough analysis of the operations of the Pierce branch in Los Angeles and, simultaneously, to organize a survey of the opinions of a random sample of its 3,000 customers. The results of this in-depth investigation of a single branch, which Merrill assumed was typical of the entire chain, had a tremendous impact on the policies and strategies adopted by Merrill Lynch in the early 1940s–and in due course on the procedures and practices of every firm in the brokerage field ["Transcript of Branch Managers' Conference," 1940]. First, Braun hired financial experts to analyze the branch's revenues and expenditures. This type of introspection was either the very first, or among the earliest, for any firm operating in the brokerage sector. The outside analysts concluded that a mere 15 percent of the customers with open accounts actually conducted a sufficient volume of trades to generate net profits for the partnership. The vast majority of these profitable customers were either investors who consistently bought stocks on margin or investors who maintained accounts with persistent credit balances (surplus cash awaiting future investment).

Based on his review of the Pierce branch in Los Angeles, his discussions with top management in New York, and his experiences with other clients, Braun proposed to Merrill one of the most unconventional ideas in the entire history of the securities sector. He recommended that individual brokers no

longer be compensated by sharing with them a percentage of the commissions linked to specific transactions—at Pierce the split to brokers was 28 percent of the gross commission. Instead, brokers would receive annual salaries that reflected their overall contributions to the profitability of the firm, with each branch manager in the chain exercising the power to grant periodic raises when deemed appropriate. No firm on Wall Street had ever implemented such an unorthodox compensation policy for its sales personnel, and when Braun initially floated the concept, some old pros were incredulous to learn that such a radical idea had ever been seriously considered by senior management.

If Merrill Lynch genuinely wanted to differentiate itself from other brokerage houses, Braun argued strenuously, the firm needed to inaugurate a dramatic new compensation policy that addressed the lingering concerns not only of existing customers, but more importantly in the long run, the fears of millions of potential customers. Merely proclaiming that its brokers were more honest and more dedicated to meeting the financial goals of investors was unlikely to translate into anything much more than a marginal competitive advantage for Merrill Lynch. Every public opinion poll, including Braun's own survey in Los Angeles, suggested that almost everyone who had ever maintained an active account with a brokerage house had wondered at times about whose interest was being served when a broker recommended either the purchase or sale of securities. Was the broker truly concerned about the customer's financial welfare, or was the broker primarily seeking to boost to his commission income? These suspicions were inherent and unavoidable, Braun stressed, under the existing system; the most effective means of altering the fundamental relationship between brokerage firms and their customers was to eliminate any incentive on the part of sales personnel to churn customer accounts.

The minimum salary was set at $2,400 (about $30,000 in 1997 prices), and for about 15 percent of the sales force of 300 that figure represented an increase over their commission earnings in 1939. The 85 percent who had earned over the minimum received a $25 monthly increase over what they had earned in the previous year. No broker was asked to take a pay cut. The new salary program placed limits on how much a given broker could earn during the upcoming year, but that negative feature was offset by the security of a steady income and the prospect of salary increases in future years—if and when trading volume on the exchanges improved.

The introduction of the salary system was a risky proposition for the partners because it shifted a huge chunk of the firm's variable costs, about 30 percent of total expenses, into the fixed expense category. The salaries of sales personnel thereby joined office rents, leased telephone lines, and staff salaries in an expanded overhead category. Indeed, almost nothing remained in the variable cost category. To prepare for the worse possible scenario under these conditions, Smith found various ways to curtail annual operating expenses by $1 million, reducing them 15 percent below the figure incurred in 1939. These economies were essential for the firm's survival because trading volume continued to decline for three more years. The 126 million shares traded on the NYSE in 1942

was a figure so low that it fell below the level recorded at the start of the century; in 1900 the trading volume had been 139 million shares, and rising. (Today, that many shares often trade on the NYSE in just two or three hours.) The situation was tight for Merrill Lynch and all its competitors, and profits were slim. Luckily, trading volume more than doubled in 1943; thereafter, the partners and their employees were out-of-the-woods. (See Table 1)

In an effort to upgrade the status of stockbrokers, Merrill renamed them "account executives," a term borrowed from the advertising field. Neutral and non-threatening, the phrase had a reassuring ring–mildly elitist without sounding too snobbish. It communicated a sincere desire to provide careful professional service to each and every customer. The fresh title was designed for internal as well as external purposes. Merrill was a stickler for fair and honest dealing, and he wanted all employees who were regularly in contact with the public to maintain higher ethical standards than the industry norm. He envisioned the sales staff as trusted advisors to a group of valued clients.

In addition to the new compensation system and a new job title for brokers, Merrill adopted a whole series of new policies and procedures in the early 1940s. The firm became the first to on Wall Street to publish an annual report, and it did so voluntarily in 1940. No rule or regulation required partnerships to go public with an income statement and balance sheet, but Merrill believed that he and his partners had absolutely nothing to hide. He wanted the general public and the financial press to view his firm as an enterprise open to scrutiny and subject to accountability. In an era when the powerful investment banking houses on Wall Street rarely shared anything of importance with the press, Merrill Lynch encouraged newspaper and magazine reporters to contact the public relations office regularly and ask any question that came to mind.

To provide more tangible support for brokers in the far reaches of the branch network, Merrill took steps to beef up the communications and research capabilities of the staff at the firm's headquarters in New York. Merrill aimed to achieve competitive advantage by creating a superior information system. An enhanced news department attuned to important business and financial developments kept brokers, through timely wire messages and bulletins, more informed than their counterparts about national and international events. The research department was strengthened too. The tightening of financial reporting rules by both the SEC and NYSE in the 1930s routinely made more data available for trained security analysts [Burk, 1988, p. 62]. "INVESTIGATE–THEN INVEST," one of Merrill's favorite expressions dating back to his first career on Wall Street, became another of the firm's popular mottoes–short, sensible, memorable, and wonderfully quotable.

First and foremost, Merrill wanted to create a new and revolutionary business culture for the brokerage house and its hundreds of employees. The emphasis was on providing superior customer service at reasonable fees to a wide range of customers who were regionally and occupationally diverse. Since there were no models for emulation in the brokerage field, many of the practices that Merrill Lynch adopted were original and unprecedented. While the

focus was mainly on internal improvements, Merrill thought about externalities as well. In a field where public confidence was crucial to success, Merrill hoped to boost the image and even the performance of competitors so that his own firm could prosper in the long run. Profitable brokerage required high volume, and an upsurge in trading activity was unlikely if other firms continued to adhere to outdated traditions and self-defeating modes of behavior. In short, Merrill sought competitive advantage but he had no plans to destroy rivals, but rather to reform and rejuvenate them.

Once the partnership had gotten its feet on the ground and weathered the disruptions linked to its 1941 merger with Fenner & Beane, another large brokerage chain, Merrill moved more aggressively to implement a grandiose strategy on a national scale [Hecht, 1985]. The twofold plan had complementary features. First, Merrill aimed to draw tens of thousands of upper middle class households into the stock market and to make them life-long customers of the firm. Young professionals and salaried managers were prime targets for promotional activities since many had disposable income available for long-term investment. The second element in his strategic plan was to carve out, within the spectrum of prudent investments choices available to U.S. savers, a prominent place for the common stocks of well-managed corporations–in particular, corporations with outstanding growth prospects. To accomplish this goal, Merrill Lynch had to compete more vigorously with life insurance companies and, to a lesser extent, with financial institutions that paid minimal interest rates on savings accounts.

Life insurance was one of the most rapidly expanding sectors of the U.S. economy from 1850 to 1950 [Stalson, 1942]. During the first half of the nineteenth century, only marine and fire insurance coverage was commonly sold because of widespread public concerns about the morality of issuing policies on human lives. Many argued that anyone benefiting from the death of another person, including the immediate family, would be accepting tainted money [Zelizer, 1979]. In the post-Civil War period, these philosophical concerns steadily shifted. Buying insurance to cover the lives of breadwinners – either to protect a family from a sudden loss of income resulting from an untimely death or, alternatively, to provide a source of retirement income in old age – became broadly accepted as a prudent household expenditure. To meet these twin needs, insurance companies promoted the sale of so-called "whole-life" policies. The premium provided term coverage in the event of early death, and it included a savings component that compounded over time and entitled the policy holder who survived to old age a welcome annuity. Millions of American households, ranging from the very rich to the lower middle class, purchased whole life policies in the first half of the twentieth century. By 1950 about 50 million life insurance policies were in force; about one-third of all U.S. households owned at least one policy.

Insurance company advertising was extremely effective. Whole-life policies were promoted as safe and secure, and for the most part, the claims advanced by insurers were true. Some insurance companies went under and left policies

holders in the lurch, but bankruptcies were rare. Many states regulated the investment practices of insurance companies to protect consumers from the threat of insolvency. Insurance salespeople typically earned handsome commissions; that portion of the annual premium which was intended to build up a policy's cash value was diverted initially, usually for a period of two to three years, to cover sales and distribution expenses.

Invariably, life insurance companies and their sales representatives warned anyone who was contemplating saving a few extra dollars about the dangers of investing in common stocks. Echoing the advice of most contemporary financial advisors, insurance sales representatives labeled common stocks as inherently speculative and fundamentally imprudent; whole-life policies, in contrast, were a sound and sensible choice. After the stock market crash in 1929 and the slow rebound of market prices in the 1930s, most of what insurance salespeople told their customers seemed to ring true.

Merrill broke another long-standing taboo on Wall Street by launching an aggressive advertising and public relations campaign [Marchand, 1985]. In the mid-1940s, the firm hired 37-year-old Louis Engel, a former managing editor of *Business Week,* to head the advertising department. Engel's most innovative advertisement, which often turns up on lists of the 100 most influential ads in the nation's history, appeared in the fall of 1948. Entitled "What Everyone Ought to Know about This Stock and Bond Business," the ad consisted of 6,000 words of very small print squeezed onto a full-sized newspaper page. The copy was informational and educational–and textbook dry in tone. There were no explicit references to Merrill Lynch's services in the entire text, just a small calling card at the bottom right of the page that invited readers to request free reprints. In the history of print media, no single advertisement with so much seemingly boring copy had ever been published for any product or service–not anywhere at anytime. During the first week after its publication in the *New York Times,* the firm received more than 5,000 responses. Merrill Lynch ran the same advertisement, or slightly revised versions, in newspapers across the nation not just during the next few months, but indeed for years thereafter. The total number of responses exceeded three million, and those returns translated into the names of millions of prospective customers for the firm's eager brokers. With that advertisement alone, Engel proved himself a promotional genius. During his long career at Merrill Lynch, he set a new and higher standard for enterprises in the financial services sector.

In 1944, Merrill suffered the first in a series of heart attacks that left him house-bound for most of the next decade. His mind remained as sharp as ever, however. He continued to stay apprised of business developments, and he exercised a great deal of control over the firm's policies and procedures. A personal secretary joined his entourage. With Merrill absent from headquarters, Win Smith became the de facto CEO. The two senior partners were in communication either by phone or memorandum on almost a daily basis. In many ways, the exodus from the daily routine proved advantageous with respect to decision making at the highest level. In correspondence with Dean Witter, who

headed a competitive brokerage chain on the west coast, Merrill explained: "In many ways I think I am much more helpful to the firm by not being engaged in the hurly burly of day-to-day business." He added: "Now I have the opportunity to look at matters objectively, to study the more fundamental and important aspects of both our own business and the industry in general" [Merrill to Witter, Merrill Lynch Corporate Archives, 1946].

How did the overarching strategic plan, which was designed to attract thousands of new customers and provide outstanding services at reasonable fees for marginal middle-class accounts, actually play out? The quick answer is: better than anyone had the right to expect–at least in the long-run. Out of the hordes emerged, as Merrill and Smith had anticipated, an increasing number of truly profitable trading accounts and thousands of extremely loyal and grateful customers. Many younger households, with little existing wealth, turned to Merrill Lynch to help in accumulating capital over a period of two or three decades. In the postwar era common stocks complemented life insurance in the savings programs of an increasing number of American households.

In the first nine months of operations in 1940, the number of accounts at Merrill Lynch offices rose by one-third to approximately 50,000. Over the next four years, growth continued. Brokers signed up 30,000 new customers in 1941; 27,000 in 1942; 49,000 in 1943, and 46,000 in 1944. By the end of WW II, Merrill Lynch served around 250,000 personal accounts. Throughout this period, the firm's share of the trading volume on the NYSE remained fairly steady, fluctuating between 8 and 12 percent of the total. The firm's share of odd-lot trading was higher, however, which indicated that the partners were attracting thousands of small investors. Profits came more slowly. The partners lost $300,000 in 1940, but operating performance was better than the bottom line indicated because almost 90 percent of the red ink was linked to non-recurring expenses and writeoffs. In 1941 the firm showed pre-tax income of $459,000. Two years later, with aggregate volume on the stock exchanges up sharply after years in the doldrums, the partners listed $4.8 million in pre-tax income. After the imposition of income taxes at marginal rates of 75 percent and even higher, the partners still earned a respectable 16 percent return on invested capital [Annual reports, 1940-1950, Merrill Lynch Corporate Archives].

In the post-WW II years, Merrill Lynch moved forward to consolidate its leadership position in the brokerage field, and it began to make an impact in the investment banking field as well. The firm joined the ranks of the top ten underwriters of corporate securities; a feat that no other Wall Street houses with brokerage origins had ever accomplished. Pre-tax profits in 1946 were $17 million, and $4 million of that figure went directly to employees in the form of year-bonuses and contributions to a profit-sharing plan. One milestone reached in 1949 was the opening of the 100th branch office: the site was Omaha, Nebraska–a fitting midwestern locale for an enterprise that had set its sights on cultivating upper middle class households in mid-size cities distant from Wall Street.

After a decade of struggle, Merrill Lynch reached a new, sustainable plateau in 1950. All the previous work in honing the organization, establishing sound investment principles, improving customer relations, and spreading the word through aggressive advertising had paid off.

The key to Merrill's success in his third career was his ability to draw, at a very propitious time, on the variety of business skills that he had honed over more than a quarter century of active involvement. First, he was a successful merchant banker in the New York financial market during the 1920s; second, he was a retail grocer in a highly competitive mass market. He merged all the wisdom from these two careers to create an original enterprise: a retail brokerage house with a chain of outlets that offered universal service of high quality to a broad spectrum of the population. The innovative strategies that he adopted in the 1940s withstood the test of time. When Merrill died in 1956, his firm handled the largest volume of transactions on the leading stock exchanges, and it simultaneously ranked among the top ten underwriters of corporate and governmental securities.

Because of his lasting contributions to the evolution of U.S. capital markets, Charles Merrill ranks as the most influential entrepreneur within the financial services sector during the middle decades of the twentieth century.

Table 1: Trading Volume On New York Stock Exchange, 1897-1956

(in millions of shares)

Year	Vol.	Year	Vol.	Year	Vol.	Year	Vol.
1897	77	1930	812	1940	207	1950	524
1931	576	1941	170	1951	444		
1900	139	1932	425	1942	126	1952	337
1905	232	1933	655	1943	278	1953	377
1910	164	1934	324	1944	263	1954	573
1935	382	1945	340	1955	649		
1920	231	1936	496	1946	363	1956	556
1925	466	1937	409	1947	253		
1938	297	1948	302				
1929	1,125	1939	262	1949	272		

*Mean volume in 1930s = 463 million shares; in 1940s = 257 million shares

Source: Maurice Farrell, ed., *The Dow Jones Averages*, 1885-1970. New York: Dow Jones & Co., 1972

References

Baskin, Jonathan, "Development of Corporate Financial Markets in Britain and the United States, 1600-1914," *Business History Review* (1989), 199-237.

_____, and Paul Miranti, *A History of Corporate Finance* (New York and London), 1997.

Benston, George, *The Separation of Commercial and Investment Banking: The Glass-Steagall Act Revisited and Reconsidered* (New York, 1990).

Brooks, James, *Once in Golconda: A True Drama of Wall Street, 1920-1938* (New York, 1970).

Burk, James, *Values in the Marketplace: The American Stock Market under Federal Securities Law* (Berlin and New York, 1988).

Carosso, Vincent, *Investment Banking in America: A History* (Cambridge, MA, 1970).

_____, *The Morgans: Private International Bankers, 1854-1913* (Cambridge, MA, 1987).

_____, *More than a Century of Investment Banking: The Kidder, Peabody & Co. Story* (New York, 1979).

Chandler, Alfred D., *Henry Varnum Poor: Business Editor, Analyst, and Reformer* (Cambridge, MA, 1956).

Chapman, Stanley, *The Rise of Merchant Banking* (London, 1984).

Chernow, Ron, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York, 1990).

De Bedts, Ralph, *The New Deal's SEC: The Formative Years* (New York, 1964).

Derr, Mark, *Some Kind of Paradise: A Chronicle of Man and the Land in Florida* (New York, 1989).

Hecht, Henry, *A Legacy of Leadership: Merrill Lynch, 1885-1985* (New York, 1985)

Lebhar, Godfrey, *Chain Stores in America, 1859-1962* (New York, 1963.

Marchand, Roland, *Advertising the American Dream: Making Way for Modernity, 1920-1940* (Berkeley, 1985).

McCraw, Thomas, *Prophets of Regulation* (Cambridge, MA, 1984).

Merrill Lynch, *Annual Reports, 1940-1956.*

Merrill Lynch Corporate Archives, World Financial Center, New York City.

Parrish, Michael, *Securities Regulation and the New Deal* (New Haven, Conn., 1970).

Seligman, Joel, *The Transformation of Wall Street* (Boston, 1982).

Sicilia, David, "Supermarket Sweep," *Audacity Magazine* (Spring 1997), 10-21.

Smith, David George, and Richard Sylla, "The Transformation of Financial Capitalism: An Essay on the History of American Financial Markets," *Financial Markets, Institutions, and Instruments* (1993), 1-62.

Smith, Winthrop, "Reminiscences of Charles Merrill," in Merrill Lynch Corporate Archives.

Sobel, Robert, *The Life and Times of Dillon Read* (New York, 1991).

_____, *The Great Bull Market: Wall Street in the 1920s* (New York, 1968).

Stalson, Owen, *Marketing Life Insurance: Its History in America* (Cambridge, MA, 1942).

Tedlow, Richard, *New and Improved: The Story of Mass Marketing in America* (New York, 1990).

Time (magazine), February, 12, 1940.

"Transcript of Branch Managers' Conference, 1940," in Merrill Lynch Corporate Archives.

Zelizer, Viviana, *Morals and Markets: The Development of Life Insurance in the United States* (New York, 1979).