

One gold corner that failed

By Kenneth D. Ackerman

Hollywood producers of such futures-related films as "Trading Places" and the forthcoming "Harem" may be missing the boat with their make-believe stories.

Commodity trading in America has a real-life history, with characters and stories as swashbuckling as any Errol Flynn movie. It is tempered with the suspense of the best Alfred Hitchcock film and with complex intrigue equal to any John Le Carre thriller.

The classic of commodities trading is the Gold Panic of 1869, when financiers Jay Gould and "Jubilee Jim" Fisk shocked the financial world by raiding the New York gold market, manipulating prices to the extent that legitimate commerce was frozen. When the corner was finally broken on "Black Friday," Sept. 24, 1869, the price of \$100 in gold coin (about 4.8 oz.) plummeted from \$160 to \$133 in 15 minutes.

Many Wall Street trading houses went bankrupt, and the Gold Exchange and clearinghouse themselves were placed in receivership.

Shading the affair were hints that President Ulysses S. Grant himself was an unwitting party to the conspiracy. Congressman (later President) James Garfield led a special investigation to untangle the mess.

Gould and Fisk were an unlikely pair. Fisk, a circus barker and cotton smuggler before he gravitated to Wall Street in the 1860s, was overweight, outgoing and brash. He wore loud clothes and loved to make a spectacle of himself. Cartoonist Thomas Nast always drew Fisk with the large diamond he wore on his shirt, and newspapers wallowed in stories of his romances.

But Gould was quiet and serious. Raised in poverty in upstate New York, Gould drove his first business patron to suicide after reportedly embezzling his fortune to speculate in hide futures. Then he lost it all in the financial panic of 1857. Before his death, Gould described himself as "the most hated man in America."

Fisk and Gould had emerged as winners in the infamous Erie Railroad takeover war of 1868, in which William Marcy "Boss" Tweed, then absolute ruler of New York politics, was involved. When it was over, Gould, 32, was Erie president and Fisk, 34, treasurer.

Erie's offices were moved to Pike's Grand Opera House on New York's West 23rd Street for Fisk to indulge his pastime as stage impresario. That October, the two appointed Boss Tweed the newest director of Erie's corporate board, giving Fisk and Gould the protection of the New York judicial system under Tweed's judges.

For Fisk and Gould, the gold market was a sitting duck waiting to be poached. Gold speculation in Amer-

ica in the 1860s was an anomaly of the Civil War era. Congress had suspended the national gold standard on Dec. 31, 1861, to help finance the war.

The result was a dual currency system where paper money was legal tender for domestic debts and claims, while gold remained the currency required for international commerce, foreign trade, and tariffs and customs duties. But without government backing, the value of paper next to gold fluctuated freely.

Formal, centralized gold trading was established at the Gold Room in 1864. The Gold Exchange Bank was formed a year later to clear its transactions. Gold Room trading, mostly in one-day forward contracts, resembled the flavor of modern regulated futures with its open outcry trading in crowded pits.

The Gold Room was an ornate, high-ceiling chamber on the corner of Broad and Exchange streets, with a gallery and alcove for telegraph oper-

ators to transmit minute-by-minute price changes to offices nationwide. Most trading was around an ornate fountain in the room. On the facade facing the street was a gilded indicator quoting prices to the public.

Traders also could combine sales with subsequent loan commitments to establish "long" and "short" positions. For example, gold buyers could loan their gold to short speculators or commercial businessmen and use the cash to cover the original purchase price.

Thus, traders could accumulate enormous amounts of gold, paying only a fraction of its face value. At the height of the Black Friday panic, Fisk estimated his clique held and paid for only \$6-\$7 million in physical gold coin while having title to almost \$100 million. The rest was in "calls" — options to call back loaned gold and return the cash collateral.

By 1869, only \$15-\$20 million in gold coin remained in circulation for use by businessmen. Meanwhile, the Treasury held gold reserves of some \$90 million.

Gould tested the waters in April 1869 by purchasing

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\$7 million in gold. The price of \$100 in gold coin rose abruptly from \$132 to \$140. Other speculators followed suit. By May, the price topped \$144.

The danger of attempting a gold corner was that the Treasury might step in and sell gold from its large reserves. While Boss Tweed gave Gould ample clout in the city, finessing the U.S. Treasury meant spinning a web around Grant, who had taken office in March.

To do this, Gould enlisted Abel Rathbone Corbin, a retired diplomat and lobbyist who had, at age 67, recently achieved his political *coup de grace* by marrying Virginia Grant, the president's middle-aged sister.

Gould bought \$2 million in gold "calls" for Corbin. In return, Corbin arranged private meetings with Grant, where Gould argued that expensive gold was good for the country and would make it easier for farmers to sell crops abroad. He wanted Grant's assurance that the Treasury would keep gold from the market. He also made sure he was seen with Grant, bought gold for some of Grant's staff members and planted an article in the *New York Times* about Grant's tight gold policy.

But gold prices still sagged into the \$130s by early September. And the Treasury sold gold into the market each month. Up to then, Gould had acted alone.

The real drama began only when Gould convinced Fisk to enter the ring. Fisk at first was skeptical of cornering gold, fearing the overall downtrend in gold prices and the danger of government intervention. But by early September, things changed.

On a trip to New York, Grant finally appeared to accept Gould's theory that scarce gold would help farmers. Sitting in Abel Corbin's kitchen, he wrote a letter to Treasury Secretary George Boutwell advising against Treasury gold sales in September.

Corbin immediately told Gould, who then informed Fisk that the Treasury would not be selling gold. By mid-September, Fisk bought an initial \$5-\$7 million in gold to help Gould "firm up" the market.

Corner starts to crack

As the corner developed, everyone assumed the Treasury would stay out because Grant was "in" with Gould. Between Sept. 13 and 22, the Fisk-Gould clique bought commitments for nearly \$60 million in gold. Large customers like Gould and Fisk, not required by law to post minimum margins, often paid none.

Meanwhile, exporters, importers, bankers and merchants were suddenly unable to buy gold at any price. Normal commerce was nearly impossible. Businessmen appealed to Secretary Boutwell, but he stayed noncommittal, bowing to government neutrality.

On the weekend of Sept. 18, Gould finally overplayed his hand. Still suspicious of Grant and Boutwell, Gould again had Corbin urge Grant by letter not to interfere in the gold market. Grant, vacationing in Washington, Pa., was given the letter by a courier, who asked if there would be a reply. "No answer," Grant said.

The courier sent a cryptic wire to his employers in New York: "Letter delivered all right." Whatever the intent, Fisk and Gould read the "all right" as Grant's



answer to Corbin's gold argument, and the buying escalated to new heights.

But Corbin's letter — and particularly its urgency — also finally made Grant suspicious. That night, Grant's wife Julia wrote a letter to Corbin's wife — a stern talk among sisters-in-law. In it, she relayed that "the president" was much "distressed" about rumors that Corbin was

speculating in gold and that he should stop at once.

By the time the famous "Dear Sis" letter reached New York on Wednesday, Sept. 22, Wall Street was a circus. And the clique was in the center ring. But despite all the clique's buying, leading bankers and businessmen flexed their own financial muscle by selling huge amounts of gold on the market. Thus, gold coin prices rose only \$5, from \$135.50 to \$140.50.

Room for one in the lifeboat

When Gould visited Corbin's house that night, Corbin showed him Mrs. Grant's letter. Immediately, Corbin and Gould understood its significance.

Gould knew his plan to corner gold could crumble at any moment. Corbin, meanwhile, had lost the president's confidence. He wanted out. To settle his own profit on the deal, Corbin asked Gould for \$100,000 cash and a \$25,000 check that Gould had given him earlier that month. In return, Gould demanded silence.

"If the contents of Mrs. Grant's letter is known, I am a ruined man," Gould said.

A check for \$100,000 cash was drawn the next morning, but Gould never delivered it. On his way to Wall Street that morning, he had a plan to save himself.

It required total secrecy. Knowing that Grant could break the corner at anytime, Gould must sell his gold now while prices were high. But there was room for only one in this lifeboat. Gould told Fisk nothing.

As Fisk and others continued their frenetic buying Thursday, Gould quietly sold almost \$50 million of his own gold — mostly to Fisk's brokers — buying only enough to hide his retreat and look bullish.

The crescendo of trading on Thursday pushed gold prices to \$144. The clique held commitments for more than \$100 million in gold — far more than the \$15 million in actual gold or gold certificates circulating in New York. A record \$239 million in gold trades were made, compared with a normal day's \$70 million. The corner appeared complete. All gold was owed to the clique, and no one could buy gold except from the clique. That night, the gamblers met at Gould's Opera House office to plot strategy. They decided to drive prices still higher on Friday.

Gould and Fisk arrived together again Friday morning at a back office at Heath & Co., a brokerage firm near the Gold Room. The market opened fast. Fisk instructed Albert Speyers, one of his brokers, to buy all the gold he could at \$145. A short while later, he ordered Speyers to "put it to \$150 at once." When gold reached that level, Fisk told Speyers to buy gold at \$160. By about 11:30, Speyers alone had bought nearly \$60 million in gold coin, and the price had topped \$160.

The impact of this feverish Wall Street trading was

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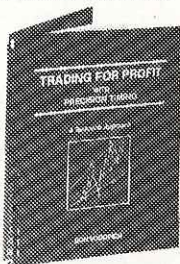
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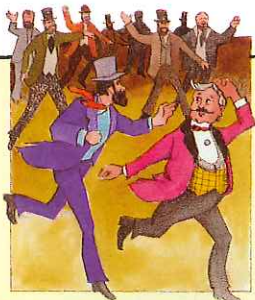
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felt nationwide. Urgent messages poured into Washington from Boston to San Francisco as the country's financial system ground to a halt. Shortly after 11 a.m., Grant met with Boutwell at the White House. They decided to sell Treasury gold immediately.

Boutwell telegraphed New York, "Sell 4 million gold tomorrow, and buy 4 million bonds."

The pandemonium on the Gold Room floor, meanwhile, peaked as gold nudged over \$160. James Brown, a prominent Scottish banker, offered to sell a million in gold at \$162, then another at \$161, then 5 million at \$160. The price slide began.

News reached the floor 10 minutes later that the Treasury planned to sell \$4 million in gold. Rumor upped the figure to \$15 million. In 15 minutes, the price fell from \$160 to \$133.

The repercussions for Fisk and Gould following the collapse were immediate. Half of Wall Street wanted them lynched. Hundreds of brokers rushed from the Gold Room into the street. A crowd headed toward the Heath & Co. offices. Brown and others demanded entry and asked for margin money but were stopped by police and private thugs. Fist fights broke out. Fisk and Gould narrowly escaped, slipping out a rear door to find sanctuary at the Opera House.

Ruin avoided

No one knows exactly how Fisk reacted when Gould explained his deception on Black Friday. Gould made as much as \$11 million selling his gold at inflated prices, while Fisk, unaware of the coming deluge, bought heavily before the market break and faced ruin. But, once again, Gould had a plan.

Within hours, a Boss Tweed judge was summoned to the Opera House, and a document was produced saying all purchases by the clique on Black Friday were for William Belden, one of Fisk's brokers. Belden quickly declared bankruptcy — sinking his claims with himself. Fisk simply renounced his debts.

On Monday, Gould and Fisk obtained 12 injunctions and judicial orders from Tweed judges placing the Gold Room and clearinghouse into receivership and forbidding the exchange from enforcing any settlements on Friday's trades. Gold claims from Black Friday would clog the New York court system for years.

The Gold Room itself absorbed almost \$700,000 in losses on the day. It stayed closed for weeks.

Despite months of investigations, neither Congress, the press nor a New York grand jury found that Fisk or Gould had committed any crimes in their gold escapade. No American law in 1869 said two men couldn't buy as much gold as they liked. Federal bans against corners and price manipulations were creations of the 20th — not the 19th — century.

The Gold Room closed in 1879, when the nation returned to a gold-based currency system and specie payment for the dollar. Gold was not traded as a U.S. commodity again until December 1974.

The Gold Panic had a semi-happy ending. Fisk and Gould failed to corner gold but at least avoided personal ruin. The nation escaped economic catastrophe. And the cast of thousands on Wall Street lived to trade another day.

In the best cinematic fashion, Gould and Fisk enjoyed extended media limelight: congressional hearings, newspaper interviews, fame.

When a reporter for the *New York Sun* asked Fisk about the Gold Room affair several days after the panic, he quipped, "A fellow can't have a little innocent fun without everybody raising a hullabaloo and going wild."

Some days later, Gould came across broker Henry Smith on a New York sidewalk. Smith, ruined on Black Friday, was indignant.

"I'll live to see the day, sir, when you have to earn your living by going around this street with a hand organ and a monkey," Smith said.

Gould retorted, "Maybe you will, Henry. And when I want a monkey, Henry, I'll send for you." □