

BUCKET SHOP SYSTEMS

How the Business Nowadays Is Conducted and Financed.

IMMENSE CAPITAL INVOLVED

A Look Into a Typical Clearing House, Where Orders Are Received and "Bucketted."

It is a habit of the respectable business folk of Wall Street, when the bucket shop evil happens to become a topic of conversation, to speak of it in a very distant manner and on hearsay only. Their attitude toward it is like the attitude of respectable members of society toward the social evil. It is a subject on which one must not appear to be too well informed. The head of a conservative commission house is horrified to hear that the bucket shop business centring in New York from outside points is frequently as large as the total transactions reported on the New York Stock Exchange. Between the under world of finance and the better elements of Wall Street there is as great a gulf as between the corresponding divisions of the social world, and whatever one in the upper division may happen to know of the lower division he had better keep to himself.

It has always been so, but in the last three or four years the bucket shop business has become so well organized that it has its direct influence even on the New York Stock Exchange, and the fact is beginning to be recognized. At least 90 per cent. of the business is backed by a few men commanding an immense amount of capital. Instead of there being thousands of bucket shops all over the country, each backed by an individual of limited resources, as in the old days, there are now several bucket shop systems maintaining headquarters in New York, Boston, Chicago, and Philadelphia, whose function is to back the sheets of the offices outside where the business originates. The business of several hundred offices is cleared or "banked" by one system. The manager of an outside office gets either a salary or a percentage on the business he sends in, or both, and the system takes all the risk and all the profit.

The clearing house of a bucket shop system is its headquarters. The inside of such a place is well worth seeing. Its principal feature is a telegraph room, manned by a force of expert operators, who receive the orders from the outside offices. These orders go to the man who passes upon them. Before him he has a big sheet on one side of which are entered the sales and on the other side the purchases. He has also the current market quotations, and these generally are two or three minutes ahead of the quotations on which the people several hundred miles away are trading. Suppose a trader in the Providence office wants to buy 50 shares of Sugar at the market. The operator on the Providence wires the order and passes it on to the man who fills it. Then a report is made: "Bot 50 Sugar, 140." That is for the client. The bucket shop is at once short of 50 shares of Sugar, theoretically, and the trade is entered up on the selling side of the sheet as a sale of that amount of the stock at 140. There is no actual transaction, of course.

Occasionally an order is received to buy or sell an inactive stock that may be subject to abrupt movements either way. Occasionally, too, the bucket shop people suspect that they are getting "wise orders," which means that Wall Street manipulators have been sending out emissaries to get the bucket shops long of something that it going to have a break, or short of something that is going to be put up. Such stratagems are sometimes practiced on a large scale, and the bucket shops, if they are unsuspecting, lose heavily. Orders that fall under this suspicion are filled, because the bucket shop, to do business satisfactorily, must stand prepared to buy or sell anything that people may want to trade in, but after the orders have been filled they are "put under cover," which is to say that the bucket shop people themselves go into the market and hedge against their risk by buying what they have sold or selling what they have bought. In that way they protect themselves against loss.

The headquarters plant of the bucket shop system is generally located in some inconspicuous place. There are several hidden away in the large office buildings of Wall Street without any legends whatever on the doors and nothing to show the character of the business going on within. An unknown visitor is not permitted to penetrate further than the first small office of the suite. His further progress is effectually barred.

It is to be remembered that the backers of these systems command immense capital. They find, for example, that on their sheets they are short 50,000 shares of Sugar at an average price of 140, having sold that much to clients, and that the average margin on the 50,000 shares is less than 5 per cent., as it probably would be, for bucket shop trades as a general thing are lightly margined. A break of 5 points in the price of the stock, therefore, would wipe out the Sugar account and sweep the customers' margins into the bucket shop treasury. There is then nothing to prevent the backers of the system from seizing a psychological moment to go into the stock market and raid Sugar. They can well afford to lose \$50,000 on that operation if the average margin on the 50,000 shares that they are short of on the sheet is 2 per cent., or \$100,000. No Stock Exchange broker is permitted by the rules to transact business for a bucket shop, but he may accept business tendered to him by bucket shop backers as individuals. He may be unaware that the client who wants to make a turn on the short side of Sugar is in the bucket shop business. It doesn't matter whether he is or not. He deals with the individual and not with the bucket shop. One of the largest bucket shop organizations in the West is generally supposed to be represented on the floor of the Stock Exchange by a member who executes principal commissions at times for its principal backer and his associates. They deal with this broker as individuals, and it is not for him to distinguish between their personal speculations and such of their operations as relate to the state of their bucket shop "sheets." Several months ago the operations of this clique became so prominent as to be openly commented upon, but there was nothing illegal about them so far as the Stock Exchange was concerned. The stock market is a public affair, and it is anybody's privilege to buy or sell stocks. In selling the market, presumably to break prices, this crowd got heavily short of certain stocks, and is supposed to have taken a big loss on its line of shorts.

If losses and profits on fluctuations just balance, the bucket shop business is still very profitable. The bucket shop charges interest for carrying stocks that it does not carry, and the usual brokerage commission besides. The imposition of the State tax of \$2 each 100 shares increases its profits, for the bucket shop charges clients that tax and then itself evades the payment of it.