



FROM: Ted Aronson

RE: May Day

DATE: 5/1/15

Happy anniversary!

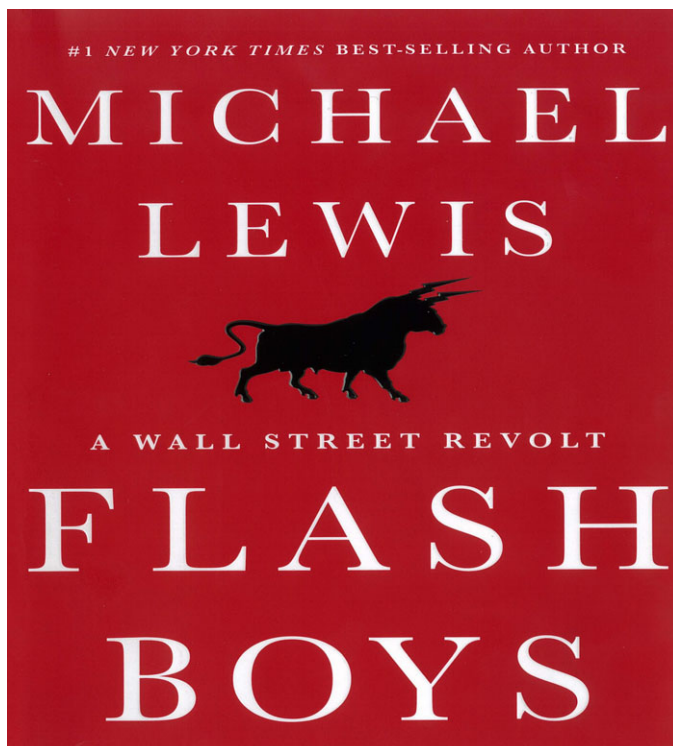
I was a young guy at Drexel Burnham forty years ago today — the notorious May Day. For the first time, commissions became negotiable, and Pandora's box was opened. In our (mock) condensed history of the Big Board, it was the first significant change in almost two centuries at the NYSE (and thus domestic stock trading).

A result of May Day was discount brokers; Source Securities was among the first. The last page comes from the firm's pricing schedule. It details a large trade of 5,000 shares and an average price in 1975 of \$30 per share. When you look at the pre-May Day commission rate, compare it to AJO's average commission rate today: 1¢ per share!

# CONDENSED NYSE HISTORY



1792 | Buttonwood Agreement



1975 | May Day

2001 | Decimalization  
2007 | Reg NMS  
2010 | Flash Crash  
2014 | Flash Boys

MAYDAY (SIC): AH, THOSE WERE THE DAYS

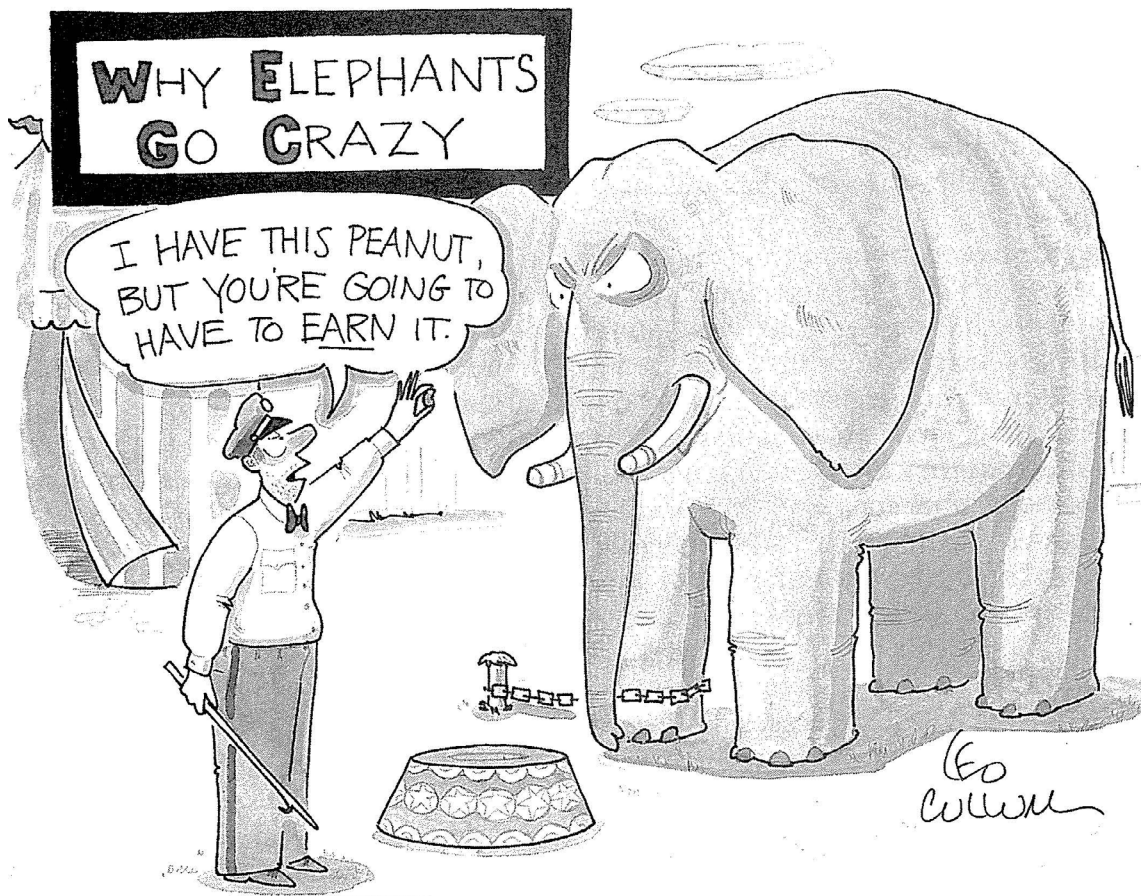
**1975**

**MAY**

**1**

**THURSDAY**

# DECIMALIZATION



## B A S E C O M M I S S I O N P E R S H A R E

5,000 SHARE ORDER

\*\*\*\*\* DISCOUNT \*\*\*\*\*

PRICE	BASE COMM	0%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%
1	315.70	.065	.045	.040	.040	.035	.030	.030	.025	.020	.020	.015
2	412.40	.080	.060	.055	.050	.045	.040	.035	.035	.030	.025	.020
3	468.29	.095	.065	.060	.055	.050	.045	.040	.035	.035	.030	.025
4	524.18	.105	.075	.070	.065	.060	.050	.045	.040	.035	.030	.025
5	561.44	.110	.080	.075	.065	.060	.055	.050	.045	.040	.035	.030
6	598.70	.120	.085	.080	.070	.065	.060	.055	.050	.040	.035	.030
7	623.54	.125	.085	.080	.075	.070	.060	.055	.050	.045	.035	.030
8	648.38	.130	.090	.085	.080	.070	.065	.060	.050	.045	.040	.030
9	673.22	.135	.095	.090	.080	.075	.065	.060	.055	.045	.040	.035
10	698.06	.140	.100	.090	.085	.075	.070	.065	.055	.050	.040	.035
11	722.90	.145	.100	.095	.085	.080	.070	.065	.060	.050	.045	.035
12	747.74	.150	.105	.095	.090	.080	.075	.065	.060	.050	.045	.035
13	772.58	.155	.110	.100	.095	.085	.075	.070	.060	.055	.045	.040
14	797.42	.160	.110	.105	.095	.090	.080	.070	.065	.055	.050	.040
15	822.26	.165	.115	.105	.100	.090	.080	.075	.065	.060	.050	.040
16	847.10	.170	.120	.110	.100	.095	.085	.075	.070	.060	.050	.040
17	871.94	.175	.120	.115	.105	.095	.085	.080	.070	.060	.050	.045
18	896.78	.180	.125	.115	.110	.100	.090	.080	.070	.065	.055	.045
19	921.62	.185	.130	.120	.110	.100	.090	.085	.075	.065	.055	.045
20	946.46	.190	.135	.125	.115	.105	.095	.085	.075	.065	.055	.045
21	971.30	.195	.135	.125	.115	.105	.095	.085	.080	.070	.060	.050
22	996.14	.200	.140	.130	.120	.110	.100	.090	.080	.070	.060	.050
23	1,020.98	.205	.145	.135	.125	.110	.100	.090	.080	.070	.060	.050
24	1,045.82	.210	.145	.135	.125	.115	.105	.095	.085	.075	.065	.050
25	1,070.66	.215	.150	.140	.130	.120	.105	.095	.085	.075	.065	.055
26	1,095.50	.220	.155	.140	.130	.120	.110	.100	.090	.075	.065	.055
27	1,120.34	.225	.155	.145	.135	.125	.110	.100	.090	.080	.065	.055
28	1,145.18	.230	.160	.150	.135	.125	.115	.105	.090	.080	.070	.055
29	1,170.02	.235	.165	.150	.140	.130	.115	.105	.095	.080	.070	.060
30	1,194.86	.240	.165	.155	.145	.130	.120	.110	.095	.085	.070	.060
31	1,219.70	.245	.170	.160	.145	.135	.120	.110	.100	.085	.075	.060
32	1,244.54	.250	.175	.160	.150	.135	.125	.110	.100	.085	.075	.060
33	1,269.38	.255	.180	.165	.150	.140	.125	.115	.100	.090	.075	.065
34	1,294.22	.260	.180	.170	.155	.140	.130	.115	.105	.090	.080	.065
35	1,319.06	.265	.185	.170	.160	.145	.130	.120	.105	.090	.080	.065
36	1,343.90	.270	.190	.175	.160	.150	.135	.120	.110	.095	.080	.065
37	1,368.74	.275	.190	.180	.165	.150	.135	.125	.110	.095	.080	.070
38	1,393.58	.280	.195	.180	.165	.155	.140	.125	.110	.100	.085	.070
39	1,418.42	.285	.200	.185	.170	.155	.140	.130	.115	.100	.085	.070
40	1,443.26	.290	.200	.190	.175	.160	.145	.130	.115	.100	.085	.070
41	1,468.10	.295	.205	.190	.175	.160	.145	.130	.115	.105	.090	.075
42	1,492.94	.300	.210	.195	.180	.165	.150	.135	.120	.105	.090	.075
43	1,517.78	.305	.210	.195	.180	.165	.150	.135	.120	.105	.090	.075
44	1,542.62	.310	.215	.200	.185	.170	.155	.140	.125	.110	.095	.075
45	1,567.46	.315	.220	.205	.190	.170	.155	.140	.125	.110	.095	.080
46	1,592.30	.320	.225	.205	.190	.175	.160	.145	.125	.110	.095	.080
47	1,617.14	.325	.225	.210	.195	.180	.160	.145	.130	.115	.095	.080
48	1,641.98	.330	.230	.215	.195	.180	.165	.150	.130	.115	.100	.080
49	1,666.82	.335	.235	.215	.200	.185	.165	.150	.135	.115	.100	.085
50	1,691.66	.340	.235	.220	.205	.185	.170	.150	.135	.120	.100	.085

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## Lessons of May Day 1975 Ring True Today

By Jason Zweig

Friday, May 1, is the 40th anniversary of what may well have been the most momentous day on Wall Street since the predecessor of the New York Stock Exchange was formed in 1792.

On May Day 1975, fixed-rate commissions were abolished by regulators. Until then, a broker who tried to charge customers less than the fixed rate to trade shares ran the risk of being expelled from the stock exchange. With some minor exceptions, for 183 years it had cost the same amount per share to trade 100 shares as it did to trade 1,000 or 100,000—and brokers regularly shaved 2% or more for themselves off the typical trade.

May Day blew that cozy world to smithereens.

One of its lessons for today's investors is obvious; another is more subtle.

The obvious lesson is that when brokers treat their customers more fairly, the customers prosper. May Day smashed Wall Street's monopoly, unleashing the discountbrokerage industry, fostering independent research and democratizing the world of investing.

The subtle lesson is that when brokers treat their customers more fairly, everyone prospers. May Day, which brokers at the time expected to be the most apocalyptic event in their industry's long history, turned out to be the best thing that ever happened to them. Trading boomed, investors flocked back to the markets and brokerages minted money for decades.

To understand the changes wrought by May Day, consider what it cost to buy 100 shares trading at \$25 on the New York Stock Exchange before May 1, 1975.

You would have paid a minimum commission of \$49 and a bid-ask spread (the



difference between the selling price and purchase price) of \$13, reckons Charles M. Jones, an economist at Columbia Business School who studies brokerage costs.

That totaled 2.5% of the \$2,500 transaction.

Today, you could buy 100 shares of a \$25 stock for a commission of \$10 or less at an online broker and perhaps \$1 in total bid-ask spread, a combined cost of 0.4%.

So the cost of trading has fallen by more than 80%—without adjusting for inflation.

How did May Day come about?

With fixed rates sheltering them from the discipline of competition, many brokerage firms had become inefficient. When volume surged in 1968, brokers were so unable to keep up with the paperwork that the NYSE had to shut down

every Wednesday—and some 160 brokerage firms went bust between 1968 and 1970.

Meanwhile, institutional investors wanted to know why it cost the same rate to trade tens of thousands of shares as it cost to trade 100 shares.

Prompted partly by trustbusters at President Richard Nixon's Justice Department, the Securities and Exchange Commission announced in September 1973 that it would eliminate fixed commissions a year and a half later.

As May Day—or “Black Thursday”—loomed, the rhetoric on Wall Street turned redhot. James Needham, chairman of the NYSE, predicted that negotiable commissions would bring “disaster to the majority.” Brokers sneered that the SEC was an acronym for “Soviet Economic Committee.” Summarizing the industry's positions against deregulation,

*(over please)*

SEC commissioner John Evans recited a litany of doom; critics, he said, claimed that it would “create confusion and chaos” and “bring about the downfall of our free enterprise system.”

The opponents of deregulation “had a sense of entitlement that they somehow deserved a certain level of profits,” recalls Lee Pickard, then the head of market regulation at the SEC and now a partner at the securities-law firm of Pickard Djinis & Pisarri in Washington. “They also had a kind of arrogance that this [change] is never going to happen.”

The NYSE threatened to sue the U.S. government; brokerage executives marshaled what SEC Chairman Ray Garrett Jr. called “a parade of horrors” to arm-twist congressional committees into stalling the reform.

But May Day went ahead— and Wall Street’s world didn’t end.

“The exact opposite happened,” said Donald Weeden, former chairman of Weeden & Co., one of the earliest firms to support the end of fixed commissions. “Getting rid of those monopolistic restrictions led to the most explosive profitability ever.”

When May Day came, brokers cut commis-

sions, often by 50% or more—and business boomed.

“Deregulation provided the window for people to begin to innovate,” said Charles Schwab, who in September 1975 opened the first brokerage office of the firm that bears his name and that now oversees \$2.5 trillion in assets. “It turned the whole industry upside down and led to this great mass flourishing of services and pricing and technology,” he said.

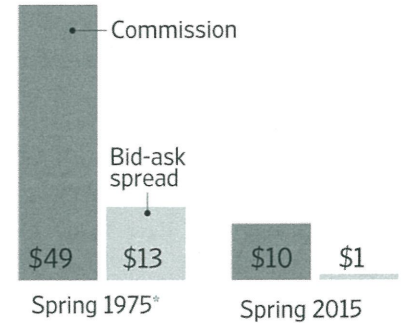
Fast-forward to 2015, when much of the brokerage industry vehemently opposes the idea that brokers should be required to put their clients’ interests ahead of their own.

If such a “fiduciary duty” became standard practice, would it—as many brokers argue—bring disaster by making financial advice too expensive for the masses? Or would it instead encourage more consumers than ever to seek advice, now that they could finally be assured that it would be in their best interest to do so?

Those who oppose the extension of fiduciary duty should look back at May Day and ask whether they are on the right side of history.

## The Mighty Have Fallen

How brokerage costs have changed since May 1, 1975.



\*In 1975 dollars

Note: Bid-ask spread is the difference between selling price and purchase price. Adjusted for inflation, total 1975 costs would exceed \$270.

Source: Charles M. Jones, Columbia Business School

THE WALL STREET JOURNAL.