NOTES

Foreword

1. The original title of this book was Passion for Reality: Paul Cabot and the Boston Mutual Fund.
2. Massachusetts Investors Trust claims the title “America’s oldest mutual fund” by virtue of its formal incorporation four months before State Street’s. Its claim is technically legitimate. However, if measuring by the date when operations formally began, State Street Research and Management would be the title holder. For a more in-depth discussion, see chapter 2.

Introduction: That Passion for Reality

INTRODUCTION: THAT PASSION FOR REALITY


5. CUOHROC, p. 117.


1. Family, Education, and Army Service

1. Paul C. Cabot (PCC) to Anna C. Cabot (ACC), December 8, 1918, private collection. Emphasis is in the original.


4. Unsigned memorandum, June 3, 1918, P. Cabot ’21 Student Folder, Harvard University Archives.

5. Unsigned memorandum, June 15, 1918, P. Cabot ’21 Student Folder, Harvard University Archives.

6. Letter from (illegible) to Paul C. Cabot, July 8, 1918, P. Cabot ’21 Student Folder, Harvard University Archives.

7. Note from E. R. Hay directed to “the President,” June 3, 1918, P. Cabot ’21 Student Folder, Harvard University Archives.

8. Letter from Henry Bromfield Cabot to L. S. Mayo, July 10, 1918; P. Cabot ’21 Student Folder, Harvard University Archives.

9. Paul C. Cabot to H. A. Yoemans, June 12, 1918, P. Cabot ’21 Student Folder, Harvard University Archives.

10. The poem is “A Prayer for My Daughter.”

11. CUOHROC, p. 8.


17. CUOHROC, pp. 7, 12.

20. Ibid., p. 124.
21. Ibid., p. 130.
22. CUOHROC, p. 181.
29. CUOHROC, p. 13; “Henry B. Cabot, Lawyer, Dies,”; “Henry B. Cabot Dead After Illness of Several Months.”
32. PCC to ACC, undated correspondence, postmarked December 31, 1918, private collection.
34. PCC to ACC, October 27 and November 3, 15, and 23, 1918, private collection.
35. PCC to ACC, November 29, 1918, private collection.
37. PCC to ACC, November 23, 1918, private collection.
38. PCC to ACC, December 31, 1918, private collection.
41. Paul C. Cabot, Government 1 Examination, May 19, 1919, P. Cabot ’21 Student Folder, Harvard University Archives; Dean Hay to a Mr. Munro, letter, June 10, 1918, P. Cabot ’21 Student Folder, Harvard University Archives; Henry B. Cabot, transcript of telephone conversation, June 7, 1918, P. Cabot ’21 Student Folder, Harvard University Archives.
42. Paul C. Cabot to Dean Chase, April 29, 1919, P. Cabot ’21 Student Folder, Harvard University Archives. A student’s concentration was his minor. Paul’s major was mathematics.; CUOHROC, pp. 16, 35–36, 59.
46. Putnam, interview.
1. FAMILY, EDUCATION, AND ARMY SERVICE

49. Ibid., pp. 98–99.
51. Copeland, *And Mark an Era*, p. 64.
53. CUOHROC, pp. 34–36.
54. Ibid., pp. 36–37.
56. CUOHROC, p. 37.

2. The Twenties

2. Cabot, interview by Tosiello, p. 2; *SEC Investment Trust Study*, pp. 2709–2711.
8. Ibid., p. 2.
2. THE TWENTIES 231

12. CUOHROC, pp. 117–118.
17. Saltonstall and Lewis, interview.
18. Saltonstall and Weeks, Salty, p. 60.
22. In the 1960s, when wide ties came back into fashion, Paul showed up at the office with a wide tie—from the 1930s. A young analyst asked, “Mr. Cabot, you’re right in style. Where did you get that wide tie?” Paul replied, “I didn’t get it, I kept it.” During an investment committee discussion of a shoe company when Paul was in his fifties, he suddenly lifted his feet, pointed at the shoes he was wearing, and said, “You see those shoes? I had those shoes in college. Who buys shoes?”
26. Ibid., p. 3.
31. SSIC Annual Report (1926), p. 3. Almost the exact same language was used in a 1937 SEC filing; SSIC Registration Statement (1937), p. 8b.
32. CUOHROC, p. 46.
35. SEC Investment Trust Study, p. 272.
36. SSIC Registration Statement (1937), p. 8c
37. SSIC response to SEC Investment Trust Study Questionnaire, Part VI, February 4, 1936. “Turnover” is generally defined as the lower of purchases or sales divided by assets, so large purchases that the fund made after the U.S. went off the gold standard in 1933 do not distort the turnover statistics.
41. SSIC Record Book I, pp. 84–93.
42. Ibid., pp. 14–31.
45. SSIC Record Book I, pp. 91–92.
47. SSIC Annual Report (1927), pp. 6–7, Baker Library, Harvard Business School. Richard Paine, as president, signed the annual reports; but it is clear to me that Paul wrote them. They reflect some of his major concerns, including the abuses of the British trusts (on which he alone was expert) and the similar problems that were arising in the U.S. at that time, as well as the industry’s overemphasis on sales as opposed to investment performance. Some of the language in the reports, particularly the 1928 Annual Report, is remarkably similar to that of a speech and article that he wrote in 1928 and 1929, which are covered in chapter 5. And the writing style, on all subjects, resembles Paul’s writing style elsewhere—clear, focused, intense, and judicious.

3. The Crash, the Depression, and State Street’s Response

1. CUOHROC, p. 114. The myth about “brokers jumping out of the windows” has been totally debunked. The important point is that Paul and his partners “were young and not particularly frightened.”


9. William F. Morton to the SEC, memorandum, September 2, 1936, appended to *SEC Investment Trust Study*, private collection. The memo was written in connection with the SEC investigation of the mutual fund industry.


15. Ibid., p. 3.


27. Cabot, interview by Tosiello, p. 11.


29. State Street did face one problem in trying to maintain its particular identity, especially after it became a national institution: the similarity between its name and that of the much larger, but wholly unrelated, State Street Bank & Trust. The problem worsened in 1966 when the partnership moved into the State Street Bank Building on Franklin Street. Paul and his partners had originally wanted to name the fund “Equity” or “Equitable Investment Trust,” but the name was too close to that of an existing trust. The law office where they were drawing up papers of incorporation was on State Street, so on the spur of the moment, they settled on that name, which they saw as synonymous with Wall Street but with more of a Boston feeling.

32. Ibid., pp. 49–50.
34. Ibid., pp. 50–53, 57. The conclusion on the effect of Edward Leffler’s political beliefs on his financial principles rests on Natalie Grow’s analysis.
35. Confidential memorandum by Leffler, p. 3, in ibid., p. 69. See also ibid., pp. 69–70, 73–77.
36. Ibid., p. 81.
37. Incorporated Investors, Quarterly Report (Q3, 1928), quoted in ibid., p. 132.
38. Ibid., p. 89.
39. Ibid., pp. 90, 191, 292–293; Confidential memorandum by Leffler, p. 3, quoted in ibid., p. 191; SSIC Registration Statement (1933), pp. 9, 12, 13; SSIC Registration Statement (1937), p. 19; SSIC Prospectus (July 17, 1933), p. 15; SSIC Prospectus (October 30, 1937), pp. 14–15. The "Blue Sky burden" referred to the necessity of registering a mutual fund with regulators in every state the fund was to be sold in and convincing them that the securities in the portfolios had more substance than the blue sky.
40. SSIC Quarterly Report (Q1, 1933), Baker Library, Harvard Business School.
42. Ibid., p. 4.
44. SSIC Interim Report for the Five Months Ended May 31, 1933, 19 June 1933, pp. 1–2.
45. SSIC management to Mohawk Investment Corporation stockholders, 19 June 1933, private collection.
48. SSIC Annual Report (1933), pp. 1–6, Baker Library, Harvard Business School. State Street limited its debt to 50% of assets after November 1932, and then to 25% of assets after June 1933. The Revenue Act of 1936 limited their debt to 10% of assets. But in fact, debt never rose much above 25%. See also SSIC Interim Report (1933); SSIC Registration Statement (1937), p. 8b; SSIC Registration Statement Under Securities Act of 1933 (February 16, 1942), p. 2; SSIC Prospectus (1937), p. 5.
49. SSIC response to SEC Investment Trust Study Questionnaire, pp. 5–6.
4. The Revenue Act and the Investment Company Act


2. Marriner Eccles to Franklin D. Roosevelt, memorandum, May 11, 1936; Memorandum by Marriner Eccles, May 8, 1936, “Retention of all present corporation taxes with graduated tax on undistributed adjusted net income superimposed,” n. d. (hereafter cited as “Retention”). These papers are filed together at the Franklin D. Roosevelt Presidential Library.


5. Grow, “Boston-Type Open-End Fund,” pp. 557, 559; SSIC Registration Statement (1937), p. 8c; SSIC response to SEC Investment Trust Study Questionnaire, 187–14–3. This wealthier group included the partners and their families (owning 22%) and Harvard University, among others. Ownership at Massachusetts Investors Trust and Incorporated Investors was more dispersed, with a larger number of smaller holders.


7. Ibid.


11. Memorandum by Paul Cabot, William Tudor Gardiner, and Merrill Griswold, “Memorandum for the Record of the Senate Banking and Currency Committee on Investment Company Bill S.3580, May 2, 1940” in Investment Company Act of 1940: Hearings on S. 3580 Before Subcomm. of the Comm. on Banking and Currency, 76th Cong. (1940), p. 1077 (hereafter cited as “Memo on S.3580”). The best source for events leading up to the Revenue Act of 1936 is the review of these events that took place before that subcommittee while it was holding hearings on the Investment Company Act of 1940.

12. CUOHROC, pp. 68–69.


14. The House of Representatives initiates all revenue-raising measures but, in this case, the Senate version ultimately prevailed.

15. Subscription warrants give existing shareholders the right to purchase new shares on preferential terms.


Emphasis added.

23. SSIC Registration Statement Under Securities Act of 1933 (February 16, 1942), pp. 5–6; Allan Forbes to Franklin D. Roosevelt, telegram, June 1, 1936; M. H. McIntyre to Franklin D. Roosevelt, memorandum, June 1, 1936.
25. Cabot, interview by Tosiello, p. 9; Blum, Morgenthau Diaries, p. 308. Oliphant was a man with a combative spirit. At one point, during a discussion of tactics to be used in the battle over the undistributed earnings tax, he exclaimed, “If we have to fight, we might as well fight the people who are our enemies anyway.”
26. Pare Lorentz, “FDR: Day by Day,” June 3, 1936, Franklin D. Roosevelt Presidential Library; “Retention.” Roosevelt’s notes described the House version of the bill that at that time seemed more likely to pass. The Senate version ultimately prevailed. The House version, steeper and more progressive, was closer to the Treasury’s original thinking.
27. Merrill Griswold, Paul Cabot, William Gardiner, to Franklin D. Roosevelt, June 4, 1936, Franklin D. Roosevelt Presidential Library; Merrill Griswold to M. H. McIntyre, phone message, June 4, 1936; Memo on S.3580, p. 1078.
33. CUOHROC, p. 121.
34. Cabot, interview by Tosiello, p. 11.
36. Ibid., p. 476.
37. Ibid., pp. 476–477.
41. Ibid., pp. 2732–2733.
42. Ibid., pp. 2734–2735, 2738.
43. Ibid., pp. 2739–2741.
44. Ibid., pp. 2744–2745.
45. Ibid., pp. 2746–2747.
46. Ibid., pp. 2751–2754. He later amended this testimony to say that the statement appeared in a separate letter, not in the contract itself. See also ibid., p. 2776.
47. Ibid., 2754–2762.
49. SEC Investment Trust Study, pp. 2774–2775.
50. Ibid., pp. 2776–2779.
51. Under certain circumstances, individual investors were exempted from capital gains tax on a portion of their investment if they held their investment long enough. Since the Revenue Act was designed to treat individuals who banded together on the same basis as individuals acting alone, mutual fund shareholders should have been given this benefit as well. A second technical item dealt with the application of the surtax to investment income.
54. Public Law No. 768 contains three titles: Title I, the Investment Company Act of 1940, deals with investment companies; Title II deals with investment advisors; and Title III updates the Securities Act of 1933.
55. Cabot, interview by Tosiello, p. 12
57. Senate Hearings on S.3580, p. 47.
60. Senate Hearings on S.3580, pp. 463–468.
61. Ibid., pp. 470–476.
62. Ibid., pp. 8, 476–477.
64. Ibid., pp. 10, 478–482.
65. Ibid., pp. 9, 482.
66. Ibid., pp. 10, 12–13, 482–484.
67. Ibid., pp. 6–7, 483–484.
69. Senate Hearings on S.3580, pp. 484–486.
70. Ibid., p. 486.
71. Ibid., p. 489. Wagner was chairman of both this subcommittee and of the Committee on Banking and Currency.
74. Ibid., p. 517.
5. Moses and Jeremiah

3. In two interviews conducted by Jessica Holland, for the Columbia University Oral History Research Office Collection (CUOHROC, p. 101) and for Goldman Sachs (p. 10), Paul used more euphemistic language in relating this incident, “You can stuff it,” in one case and “You can stick your club you-know-where” in the other. He generally attempted to tone down his language in the presence of women. This writer has heard the story with the rougher language that is quoted here, though without a recording device in hand. I believe that the earthier version of the story is the more accurate one.
8. Gelfand, Trustee for a City, pp. 62, 243–244.
9. At least according to the stereotype, Lowells are brainy professionals, while Lawrences are known more for warmth, charm, and empathy. McGeorge Bundy was a Lowell. Abbott Lawrence, who was quoted saying that “A smile never hurt anybody,” was the prototypical Lawrence. See also Henry Aaron Yoemans, Abbott Lawrence Lowell, 1856–1943 (Cambridge, Mass.: Harvard University Press, 1948), p. 15.
12. Kahn, “The Director’s Director, Part II,” p. 64; Baltzell, Puritan Boston, pp. 266–267.
13. Kahn, “The Director’s Director, Part II,” p. 64.
16. Ibid., p. 56.
17. Ibid., p. 58; CUOHROC, pp. 92–94.
18. Ibid., pp. 94–97.
27. Ibid., pp. 403–404.
34. Galbraith, The Great Crash, p. 98.
35. CUOHROC, pp. 118–121.
36. Flather Memo.
40. Staff directory of the War Production Board, “Introduction,” Spring 1942, War Production Board Papers, National Archives. The OPM—established on January 7, 1941—was later placed under the authority of the newly created War Production Board (WPB) on January 16, 1942. It was abolished on January 24, 1942. The Supply Priorities and Allocations Board was also placed under the WPB in January 1942.
43. CUOHROC, pp. 124–125.
44. Margaret Holmead to William S. Knudsen, memorandum, Office of Production Management, June 23, 1941, WPB Papers.
45. Flather Memo.
46. According to Paul Morgan, a young associate, Paul Cabot had one big advantage in dealing with people of less privileged backgrounds, as he had to at the WPB: “He could use swear words with the worst of them. In fact his vocabulary of swear words was one of the best I have ever run across.” See Paul Morgan, Dial “M” for Memories: Of the Greatest Generation (Bloomington, Ind.: Xlibris, 2001), p. 56.
47. Ibid., p. 384.
52. “A Review of the General Salvage Program (From Its Inception—Nov. 1941 to Oct. 6, 1942),” (unpublished manuscript, n. d.), WPB Papers, p. 6
55. Leon Henderson to Paul Cabot, note, n. d., WPB papers.
56. Lessing Rosenwald to Carl Adams, January 23, 1942; Paul C. Cabot to Arthur B. Newhall, memorandum, March 30, 1942; Paul C. Cabot to Messrs. Bertch, Gutterson, Murphy, Weymouth, and Manuel, memorandum, April 2, 1942; Herbert L. Gutterson to “All Members of Staff,” memorandum, June 18, 1942. All documents can be found in the WPB Papers.
57. CUOHROC, pp. 125–135.
59. Kahn, “The Director’s Director, Part II,” p. 72; Kahn, The Director’s Director, Part I,” p. 50.
60. Kahn, “The Director’s Director, Part I,” pp. 40, 42.
61. CUOHROC, pp. 110–111.
62. Ibid., p. 190.
63. Kahn, “The Director’s Director, Part I,” p. 54.
64. Kahn, “The Director’s Director, Part II,” p. 60.
65. After I wrote a brief article comparing the thought of Oscar Handlin to the thought (or at least the instincts) of Paul Cabot, Professor Handlin wrote me that, “It was good to be linked with Paul Cabot.” Otto Eckstein, the Harvard economics professor and economic forecasting consultant, was not only a favorite of Paul for his economic insights but also for his personality and sense of humor.
66. Train, Money Masters, p. 56.
68. CUOHROC, p. 152.
6. Harvard’s Treasurer

2. Flather Memo.
4. CUOHROC, p. 186.
9. Ibid., p. 144. He was, in fact, prescient in anticipating a decline in the relative importance of “receipts from accumulated wealth.” From 1930 to 1955, the contribution of endowment to the cost of operating the college fell from 47% to 27%. See also Seymour E. Harris, The Economics of Harvard, p. 335.
15. CUOHROC, pp. 87–88.
16. Lamont, Ambassador from Wall Street, pp. 291, 478; Chernow, House of Morgan, p. 277.
23. CUOHROC, p. 186.
27. “Treasurer Cabot Retires.”
29. Lyman, “Harvard Endowment”; Putnam, “Endowment Fund Forging Ahead”; Harris, *The Economics of Harvard*, pp. 370–371. See also H. Bradlee Perry, *Winning the Investment Marathon: A Simple Path to Financial Success* (Upton, Mass.: Midas Press, 1999), p. 213. Using a different methodology, one that gave Paul credit for the reinvested money saved due to his reduced payout to the faculties (which was the result of his fiscal, not his investment, prowess), H. Bradlee Perry concludes that Paul is “responsible for at least $2 billion of the Harvard endowment’s present (in 1999) $13 billion market value!”
30. “Treasurer Cabot Retires.”
33. Flather Memo.
35. CUOHROC, p. 195.
36. Ibid., pp. 194–197.
38. Ibid., p. 203.
41. Ibid., pp. 315–318.
42. Ibid., p. 336.
43. Ibid., p. 337.
44. CUOHROC, p. 193.
46. Ibid., p. 315.
51. Ibid., p. 200.
7. North Haven and Needham

5. Flather Memo.
7. Ibid., pp. 61, 77–78.
16. “Paul Cabot for Harvard Treasurer?”
20. Frederick C. Cabot, memorial service remarks.
22. Frederick C. Cabot, memorial service remarks.

8. Letting Go

5. George F. Bennett, interview by David Joy, c. 1990, transcript, p. 3.
7. SSIC Annual Report (1944), p. 3.
9. Bennett, interview, p. 3.
15. Ibid., pp. 139–140, 146–148.
18. CUOHROC, pp. 177–180.
20. Ibid., pp. 176–177.
22. Paul Cabot, “Testimony to the House Committee on Ways and Means.”
24. Ibid., p. 176.
25. Ibid., p. 3.
26. Though Paul was divorced from the management of the firm, he remained close to the research and investment process until the late 1980s.
29. Ibid., p. 54.
33. Flather Memo; Peter Vermilye, interview with the author, October 2, 2003.
36. Charles Flather, interview by the author, February 19, 2003; Flather Memo.
37. Conversation with James Ullman, 1983. This is a paraphrase rather than a direct quote.
38. Lawrence, interview, July 23, 2002; Flather, interview, February 19, 2003; Flather Memo.
39. SSIC proxy statement (December 14, 1982).

Epilogue

7. Ibid., pp. 228–229.
INDEX

Note: page numbers in italics refer to figures; those followed by t and n refer to tables and notes (with note number) respectively.

abuses, ethical and legal: Boston mutual funds’ lack of involvement in, 81; Cabot as victim of, 121–22; Cabot’s *Atlantic Monthly* Jeremiad on, 97, 115–18, 132, 215; Cabot’s concerns about, in 1970s, 199; Cabot’s proposals for reform of, 101–2, 118, 120; Cabot’s recommendations to SEC on, 93; Cabot’s study of, 25, 93, 97, 115–17, 215, 222; Cabot’s testimony to Congress on, 97; Cabot’s whistle-blowing on, 25, 87; by closed-end funds before crash of 1929, 38, 62, 81; as cyclical, 119–20, 214–15; and financial crisis of 2007–9, 216, 219, 221–22, 223–25; Investment Company Act of 1940 and, 104–5; of late 1980s, 219; and public demand for legislation, 74–75; and right of redemption, importance of, 88–89; scandals of 2003–2004, 222–23
Adams, Charles Francis, 23, 59, 77, 81, 138
African Americans, Cabot’s views on, 133
Agricultural Adjustment Act, 73, 83
alcohol, Cabot and: abuse of at Harvard College, 2, 17–18; preference for liquor, 32; Prohibitionists, dislike of, 150
Alliance Capital Management, 204
Allied Chemical & Dye, 194
Allis Chalmers, 198
Alsop, Joe, 152, 154–55
American Founders Corporation, 116, 132
American Gas and Electric stock, SSIC investment in, 44–45
American Savings Bank Association, Cabot’s address to (1928), 115–16
Amory, Cleveland, 32, 169–70, 201