Inspirational Figures

Charles Merrill:

Bullish on Americans

In September, Bank of America announced its intent to acquire the best-known brokerage house in the United States: 94-year-old Merrill Lynch. Founded by Charles Merrill in 1914, the firm came to symbolize his belief that the public markets present opportunity for everyone, not just the wealthy.

Charles Edward Merrill was born on October 19, 1885, in Green Cove Springs, Florida. His father was a doctor, but also owned a drug store, where young Charles learned about merchandising and marketing to the public. He attended Amherst College for two years but dropped out before graduating. Later he tried law school at the University of Michigan, played semi-professional baseball, and even took a job reporting for the West Palm Beach Tropical Sun newspaper.

While he does not appear to have been a good student academically, Merrill learned a lot about human nature through his outgoing personality and active curiosity. He accepted a job from his fiancée's father and spent two years learning about business at the Patchogue-Plymouth Mills. During the Panic of 1907 (a credit crisis not unlike October, 2008), Merrill impressed his employer by securing bank loans when no one else could, on the basis of sheer salesmanship.

A fun-loving fellow and a bit of a ladies' man, Merrill broke off his engagement and left Patchogue-Plymouth Mills to become the sole employee of George H. Burr & Company's bond department. This introduction to Wall Street set the course for Merrill's lifelong campaign to bring Wall Street to Main Street. Without social connections, Merrill lacked access to the handful of wealthy people who dominated the public markets at that time. So he decided to pursue a different customer base, promoting stocks and bonds as consumer products. As early as 1911, he published an article called "Mr. Average Investor," in which he made his case for the democratization of Wall Street.

In Forbes Greatest Business Stories of All Time (John Wiley & Sons: 1996) author Daniel Gross writes of the next phase in Merrill's career:

"In 1912 the bond dealer would become involved in another aspect of Wall Street business that would dictate his future strategy. George Burr wanted to underwrite a chain of stores run by Sebastian Kresge, and assigned his young executive the task of landing the client. Merrill not only won the account and helped Kresge sell $2 million in preferred stock, he also discovered a new retailing phenomenon. Chain stores, groups of outlets owned by a single operator, were proliferating. By providing a wide selection of goods, the stores offered convenience, choice, and value. And within a matter of decades, they could change the way Americans shopped."

Armed with a deep knowledge of and enthusiasm for chain stores, Merrill launched his own firm in 1914 with his friend Edmund Lynch. They made their reputation – and fortune – through the financing of chain stores. Moreover, he saw chain store marketing as a way to bring stock market opportunities to the broader public. "I saw an opportunity to render a real public service and at the same time to make a great deal of money."

Merrill also subscribed to the policy of eating his own cooking, and he made a great fortune investing in the chain stores his firm underwrote. "If a stock is good enough to sell, it's good enough to buy," said Merrill. In addition to the Kresge chain (forerunner of Kmart), he also played a role in the successful expansion of Safeway stores.

Merrill knew that with the profits of his broad-based clientele came responsibility, and he was always frank about his positions. By 1928, he was a twenty-year veteran of Wall Street and knew the markets were seriously overvalued. In March of 1928 he warned clients to get out of debt and "take advantage of present high prices and put your own financial house in order." Apparently, he took his own advice, because when the stock market crashed in October of 1929, Merrill Lynch was one of the few brokerage houses that weathered the storm.

During the Depression, Merrill turned his attention to chain stores and other mass merchandisers. He also founded Family Circle magazine, a great advertising vehicle for staple goods (the kind that get consumed even during a Great Depression) available at his chain stores.

As the economy began to recover, Merrill saw that the time was right for his dream of mass marketed investments, and tremendous opportunity would be available to the American people if someone was willing to serve them. "We must bring Wall Street to Main Street – and we must use the efficient, mass merchandising methods of the chain store to do it."

Of course, investing always carries risk, but Merrill's view of broad stock ownership as a "public service" was supported by his continuing efforts to educate Americans about the intricacies of investing. He took out ads that were more like serialized textbooks, explaining how the market works and what to look for in an investment. His ads were very much like today's investing newsletters, including our own.

Merrill acquired a majority interest in E. A. Pierce & Company. With 39 offices across the country, Pierce was the nation's largest brokerage and offered a perfect platform for Merrill's concept. Other brokerages catered to the wealthy and could not profitably serve small investors. Merrill built systems to fill that gap. But Americans were still wary of the stock market, so Merrill advertised heavily and promoted corporate transparency by publishing his own company's annual report.

Early on, Merrill paid account executives salaries instead of commissions, to ease consumers' conflict of interest fears. But there was no question that Merrill faced an uphill battle; even today people are more eager to spend their hard-earned money than to invest it. In 1949, Merrill argued, "Americans spent more than $9 billion last year for new automobiles, and yet were willing to invest only $580 million of new money for industry by the purchase of common stocks." Merrill wanted people to understand that the stock market was not a gaming table where the odds favor the house, but rather the seat of capitalism, where the people invest to create their own prosperity. He saw that widespread stock ownership stabilizes the markets and the economy, providing capital for new industries, new companies, and new jobs.

By the 1950s, with the post-war economy going strong, Wall Street finally caught up to Merrill's ideas and introduced new products to encourage broad stock ownership. The New York Stock Exchange introduced the Monthly Investment Plan (MIP) in 1954, allowing people to buy stock on a sort of installment plan. Merrill Lynch was well positioned to promote and sell the new products, and it was during the 1950s that the firm became a household name.

Merrill died on October 6, 1956, but his influence on American finance can still be felt today. Over half of all American households now own stock, largely because of the kinds of products and marketing championed by Charles Merrill, and this is one reason the government has acted so quickly to stabilize markets during our current credit crisis.

Charles E. Merrill wanted to make the opportunities of the stock market available to the American people, and he wanted to make the American people's capital available to the stock market. Today's volatility might leave some readers shaking their heads at the wisdom of Merrill's dream, but he understood that the stock market is not about today – it's about tomorrow and how we choose to build tomorrow. Thanks to Charles Merrill, millions of Americans have been able to go to college, buy their first home, and retire comfortably because they invested for the future. ▲

"I think every American would do well to invest one-twelfth of his investable funds monthly in stocks over the next five years."

— Charles E. Merrill