GLOBAL FINANCIAL DATA

Jacob Little was the first and one of the greatest speculators on Wall Street. He engineered the first successful stock corner on the New York Stock Exchange in 1835, and was known as "Ursa Major," or "the Great Bear of Wall Street." Like any bear, he was loathed by the bulls, but through his stock operations, he became one of the richest men in the United States. Although Little is now mostly forgotten, his speculative expertise laid the foundation for Jay Gould, Daniel Drew, Jesse Livermore and others who followed in his footsteps. Jacob Little was born in 1794. His father was a man of large wealth and distinction who was ruined financially in the War of 1812. Little's father helped Jacob get a position with Jacob Barker, one of the leading merchants of New York. In 1822, Little started his own business as an exchange specie broker, dealing in banknotes issued by private bank, where he gained a "reputation as an honest, energetic, and successful broker." Jacob Little opened his own brokerage house in 1834 in the old Exchange Building in Wall Street, and for the next twenty-five years, Jacob Little & Co. dominated Wall Street.

Railroads Transform the Stock Market

When Little entered the stock market in 1834, it was going through tremendous changes. Until the 1830s, most of the listed stocks were in insurance companies and banks. Most finance companies were small, had a limited number of shares outstanding, and their shares traded infrequently. Speculative activity was limited. In the 1820s and 1830s, shares in railroads began to dominate the stock market since they needed large amounts of capital to fund their operations. The first exchange-listed railroad, the Baltimore and Ohio Railroad, started trading in 1828. Whereas railroads weren't even represented on the NYSE in 1825, by the 1840s, they represented around ninety percent of the volume of the exchange. With the growth in share size and volume, speculators like Little were able to jump into the market and seize opportunities that didn't exist until the 1830s. Little had a fanatical obsession with the market. He would often work twelve hours at his office speculating on stocks, only to spend another six hours at night buying and selling banknotes issued by private banks. Little played both sides of the market, shorting stocks he felt were overpriced, trying to corner stocks the shorts were selling, or going long during a bull market. Little could remember every transaction he made, and attended to every detail of his transactions. He even delivered stock he sold personally to make sure there was no mistake in the transaction. Until Jacob Little arrived on the scene, most speculators used inside information to make their fortunes, but Little relied upon predicting the future direction of stocks and manipulating stocks to reap his fortune. Little was an inveterate gambler, but one who wanted the cards stacked in his favor. The spirit of Jacob Little was summed up when he said, “I don't care what happens, so long as I am in it.” To understand Little's involvement in the stock market, you have to understand how the stock market of the 1830s differed from the market today. Of course, there was no CNBC or ticker tape, telegraph or telephones, all trading was done on the floor of the exchange. Shares were not traded all day long as they are today. Instead there was a morning session and an afternoon session. During each session, a representative of the exchange would run through each of the listed stocks. Traders could only buy and sell when a stock was announced. When the representative of the Exchange arrived at Erie, for example, he would offer to buy or sell shares at set prices. Traders would respond by offering to buy and sell shares. Then the exchange moved on to the next stock. Continuous trading in stocks did not exist. You had two chances each day to trade a stock. That was it. Each and every transaction was written down, and published in The New York Times, The New York Herald or another newspaper the following day. If you go to a copy of The New York Times from the 1850s, you can see a record of every transaction that took place on the stock exchange. Shares were sold short either through borrowing shares directly from an owner, or more often through selling options on the stock. In the 1830s, options were not derivatives ruled by Black-Scholes mathematical formulae calculated on computers with a fixed premium. Instead, someone would offer a customer the opportunity to buy or sell the stock to them at a fixed price to be delivered at the request of the buyer at any point in the next six months. If you look at the record of transactions published in The New York Times, you can see the notation of the time period the buyer had the option to buy or sell the stock as well as the agreed upon price. Since this was how foreign exchange transactions and moving money between cities were carried out, this methodology seemed natural to people on the floor of the exchange.

Little and Morris: The First Corner

Little's first coup occurred in his corner of the Morris Canal and Banking Company in 1835. There had been an attempt to corner the stock of the First Bank of the United States in 1792 by William Duer and Alexander Macomb, but the attempt had failed, leading to the Panic of 1792. The Morris Canal was a 107-mile canal, established in 1822, that stretched across northern New Jersey from Phillipsburg on the Delaware River to Jersey City on the Hudson River. The canal lowered the cost of moving coal from Pennsylvania to New Jersey and iron ore from New Jersey back to Pennsylvania. It took only four days to move goods from one end of the canal to the other, but when railroads were able to move goods the same distance in five hours, the canal could no longer compete. Rather than make a tender offer for outstanding shares, as is done today, raiders had to buy up all existing shares of a company to own it. Little determined to do this for the Morris Canal and in the process, he cornered shares of the company. Little and his group of New Jersey traders ended up owning all of the outstanding shares, and shorts had to buy their stock from Little in order to cover their short positions. The price of Morris Canal stock went from $20 in February 1834 to $185 in January 1835. Little could have asked for more from the cornered shorts, but if he had, the shorts would have had to sell shares in other companies to raise the capital to cover their shorts which could have destabilized the market as a whole. The spike in price caused by the corner is visible in the graph below.

Little followed up this coup with a corner on Harlem Railroad in September 1835. There were reportedly 60,000 shares of Harlem sold short, but only 7,000 shares outstanding. Little drove the price of Harlem stock up from $40 per share in March 1835 to $195 a share in September 1835. Of course, the shorts did not want to fulfill their contracts and lose heavily, so they went to the Board of the Exchange to find out if there was any flaw in the contracts that would allow them to get out of them. The Board ruled that contracts had to be fulfilled, and the price of $160 was settled upon to close out the short positions. This decision set a precedent for future corners on the Exchange, and shorts knew they would have to pay if they were caught in a corner. The effect of the corner can clearly be seen in the graph below.

With these two corners, Jacob Little became known as the “Napoleon of the Board.” Little foresaw Andrew Jackson’s campaign against the Bank of the United States and the Panic of 1837 that followed. Little went short the market and profited from its decline, whence his other nickname, the “Great Bear of Wall Street.” By one count, Little’s fortune reached $30 million, making him one of the richest men in the United States.

Two Failed Corners

Jacob Little also participated in an attempt to corner the stock of the Norwich and Worcester Railroad in 1846. He organized a pool with several Boston operators to secure control of the railroad. Each member put up a $25,000 bond pledging not to sell stock below $90. The pool drove the stock price up, but Little thought the corner would fail. He sold his stock while it was in the 80s to cut his losses, and as promised, delivered a check for $25,000 to his co-conspirators. Little made a similar mistake in 1847 when he was given a chance to invest in the telegraph by Samuel Morse, but declined, a decision he later regretted.

There was one case where Little himself almost suffered the fate of being cornered. Little regularly shorted shares in the Erie Railroad Co., and in 1855, a syndicate of rival brokers which called themselves “the Happy Family” laid a trap for Little. They allowed Little to sell shares short, buying up the shares themselves. When they thought they had Little cornered, the family issued their one-day notice that they expected delivery of shares. Certain they had tripped up Little, the Happy Family estimated that Little had lost over $1 million on Erie, and now he would pay as they had done. The next day the Happy Family went to the floor of the NYSE and Nelson Robinson called out the list of stocks for trading. When he got to Erie, he offered 62 cash for Erie, then 63, 64, 65. There were no takers and Robinson and the others realized there was no float left. Although they knew they had him caught, Jacob Little sat placidly nearby, still offering to sell shares. In 1855, shares weren’t delivered by certificate and power of attorney, but had to be formally transferred at the office of the company. Knowing a showdown was at hand, Robinson and almost every operator on the Street went to the Erie office the next day to watch Jacob Little squeal when he failed to deliver the shares. Little showed up a few minutes before closing and Robinson said to him, “Well, we’ve got Erie locked up tight enough, every share of it. Now, stand to the rack like a man and acknowledge that the jig is up.” What Robinson and his clique didn’t know was that Little had purchased convertible bonds on Erie in London, and that morning had converted the bonds into shares of common stock. Little not only delivered all the shares that were demanded of him, but had shares left over which he offered for sale. Little cleared over $100,000 from this operation. From there, the price of the stock quickly fell into the teens as is seen in the graph below.

The Mystery of Jacob Little

Over the course of the twenty-five years he operated on Wall Street, Jacob Little made several fortunes and went bankrupt three times. He wasn't always bearing stocks, but also invested in state bonds and railroad bonds when he was unable to find good shorts. In the 1850s, Jacob Little & Co. was the largest brokerage house on Wall Street. That didn't occur just because Jacob Little was a bear. Jacob Little may have speculated in railroad stocks, but he was also known as the "Railroad King" because of his large ownership of rail shares.It is hard to tell the truth about Jacob Little because a lot of the information about him is taken from reminiscences that are erroneous when you check the facts. Having the actual stock market data proves that some of the stories about Jacob Little are wrong. The examples below illustrate how the stories differ from reality.

In relation to the Erie story, one source said this occurred on November 12, 1855, but by then the stock had already fallen from the 60 range where the attempted corner occurred. Another source said this happened in 1838, but this was before the Erie railroad had even issued any shares. The data do confirm the stock corners in Morris Canal and Harlem Railroad, but leaves the stories about Erie in terms of amount and timing in question. According to one source, Jacob Little went bankrupt on December 5, 1856 after a reversal in Erie stock in which he was short 100,000 shares, and his position went from a profit of $2 million to a loss of $10 million. The problem is that a $12 million reversal on 100,000 shares could only occur if the stock had moved 120 points, but in 1856 the range on Erie stock was only 15 points. I found another article in The Economist from 1856 which said Jacob Little was short about $10 million in Erie, New York Central and Reading, and his total losses were estimated at $1 million. The contemporary account in The Economist makes more sense. The New York Times of December 6, 1856 reported that the failure of Jacob Little & Co. had been announced at the opening of the exchange on December 5. The article said Little had reportedly been a seller of "two-thirds the outstanding contracts registered at the Board for the past sixty days or ninety days." In other words, Little had taken a bear stance against the entire New York Stock Exchange. The article mentioned not only Erie, but Reading and New York Central among the stocks he had been shorting. On December 5, 1856, Erie closed at 62. The stock remained above 60 until February when it began its descent to 8 in October 1856. Jacob Little was certainly correct to be bearish, but his timing was off and he gambled too much. Had he waited a few more months or gambled less, he could have made another fortune off the Panic of 1857. Although the suspension left Little free of any liability, he eventually distributed one million dollars to his creditors, paying every creditor in full with interest. When the Panic of 1857 hit on October 13, 1857, twenty brokerage firms failed or were suspended when the market crashed and banks suspended specie payments. Among the suspended firms was Jacob Little & Co. Although Jacob Little is central to the painting entitled "Wall Street, half past Two O'clock, October 13, 1857" which represented the scene when banks suspended specie payments, Jacob Little & Co. was allowed to resume its seat on the board three days later. As one newspaper put it, "It is said that the Stock Board cannot get along well without Jacob." In the May 13, 1859 issue of The New York Times, the newspaper reported that Jacob Little was suspended from trading on the NYSE because once again he was unable to meet his engagements, though the amounts were smaller than the suspension of 1856. In this case, Little was bullish, hypothecating bonds and shares of the Delaware and Hudson Railroad, Illinois Central Railroad and Panama Railroad, as well as the Sixes of Missouri, Tennessee and Virginia. When these stocks and bonds declined in value, Little was unable to meet the margin calls. Again, Little promised to make good on the basis of the average market price of the day once he determined his overall financial condition. Little apparently paid his contracts in full, for as one source put it, "Jacob Little's suspended paper was better than the checks of most merchants."

Jacob Little: Penniless Pauper or a Trader to the End?

Some sources say Jacob Little never recovered from the Panic of 1857 and died penniless, but did he? According to The Merchant's Magazine, Little lost most of his fortune as a result of the Civil War rather than the Panic of 1857. Though his fortune was reduced, Little continued to trade in the 1860s. I personally own a stock transfer certificate, signed by Jacob Little on August 26, 1864 assigning 25 shares to H. J. Morgan and Co. If Jacob Little had been so penniless and forgotten, why would The Merchant's Magazine devote the lead article in their June 1865 issue to the passing of Jacob Little, who died on May 28, 1865? According to the article in The Merchant's Magazine, "The news of his death startled the great city. He had long been one of its most remarkable men. Merchants congregated to do him honor. Resolutions of enduring respect were adopted, and the Stock Board adjourned for his funeral." The New York Stock Exchange didn't adjourn to honor paupers.

Jacob Little was a generous man. He knew what it was like to face a stock market reversal and lose everything. When other traders lost a fortune and went to him for help, he never turned them down, but freely loaned them money. He never called in the loans, and by the time he was suspended from the exchange, Jacob little was owed hundreds of thousands by the people he had helped.

Although Jacob Little was the first stock market tycoon, the first to corner a stock, the first to make millions and lose millions over the course of a lifetime, he is barely known today. What little we do know of him are stories drawn from reminiscences of his fellow traders. Even if you assume that the stories about the Morris Canal, Harlem Railroad, Erie Railroad and others are true, it still makes you wonder what he did the rest of the time he spent 25 years on Wall Street. Little didn't create the largest brokerage firm on Wall Street in the 1850s by shorting a few stocks. He had to be a consistent market trader who went bullish and bearish, who probably traded bonds more than he did stocks, and dealt with everyone on Wall Street successfully, despite his reputation. Perhaps it is the untold stories of Wall Street that are more interesting than the ones that are told.