

# Wertheim & Co.

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**Wertheim & Co.** was an investment firm founded in 1927 by Maurice Wertheim and Joseph Klingenstein, who met when they worked together at Hallgarten & Co. The firm engaged primarily in the “merchant banking” business, meaning it made investments in companies and real estate primarily for the benefit of its own partners and a small number of investment advisory clients, from its formation until the deaths of Wertheim and one of his senior partners, Edwin Hilson, in 1950 and 1952, respectively.

After 1950, control of the firm passed to co-founder, Joseph Klingenstein. He was a brilliant investor in stocks and under his leadership the firm created one of the first professional research departments on Wall Street. In the mid-1950s, the firm became more active in underwriting and subsequently attained “major-bracket” status in both equity and debt securities. Although its size and visibility did not keep pace with those of fellow “major-bracket” firms, like Goldman Sachs, Morgan Stanley and Lehman Brothers, the firm expanded significantly in the early 1970s. Under the leadership Klingenstein's son Fred, Wertheim & Co. expanded its services (research, sales, and trading) to institutional investors and increased its asset management business. As of 1970, the 20 partners and approximately 200 employees generated annual revenues of only around \$40 million (not including the gains recorded in the personal accounts of partners and clients). By 1986, when the Klingenstein family sold its 50% interest in the firm to Schroders, a British merchant bank, Wertheim had 38 Managing Directors, 51 Associate Managing Directors, a total employment of almost 1,000, annual revenues over \$200 million, and five offices in the U.S. and three in Europe. The name of the firm was changed to Wertheim Schroder in 1986 after Schroder’s initial investment, and to Schroder Wertheim in 1994 after Schroder acquired the remaining 50% interest in the firm. In 2000, Schroders sold its global investment banking operations, including Schroder Wertheim, to Salomon Smith Barney, a subsidiary of Citigroup.

## History

1886 – Maurice Wertheim<sup>[1]</sup> (MW) born to Jacob Wertheim<sup>[2]</sup> and his wife, Hannah A. Morgenthau Wertheim. Jacob Wertheim was a founder of Wertheim & Schiffer (later, Kerbs, Wertheim & Schiffer), one of several domestic cigar manufacturing companies that were combined in 1902 to form the United Cigar Manufacturers Company, of which he became president.<sup>[3]</sup> Jacob was also at one time a director of the General Motors Corporation, a director of the Underwood Typewriter Company, and a director of several large real estate concerns. He was also a founder of the Federation for the Support of Jewish Philanthropic Societies.

1891 – Joseph Klingenstein (JK) is born into an immigrant family that operated a dry goods store on the Lower East Side of Manhattan.

1908 – MW goes to work for his father's company, United Cigar Manufacturers Company, upon graduating from Harvard (BA '06, MA '07).

1909 – MW marries Alma Morgenthau,<sup>[4]</sup> daughter of Henry Morgenthau Sr., a prominent banker, diplomat (Woodrow Wilson’s Ambassador to Turkey) and philanthropist. Alma’s brother, Henry Morgenthau Jr., would become Secretary of the Treasury under President Franklin D. Roosevelt in 1934. Three daughters are born of this marriage, one of whom, Barbara W. Tuchman, becomes a Pulitzer Prize winning historian (e.g., "The Guns of August" and “A Distant Mirror”). The Wertheims resided at 176

E. 75th Street and in Cos Cob, Connecticut (in an estate known as Wyndygoul).<sup>[5]</sup>

1911 – JK joins Hallgarten & Co., after receiving a B.A. degree from Columbia University and after completing one year at Columbia Law School. Neil Finch graduates from West Point, and becomes a colonel during WW I.

1915 – MW joins Hallgarten & Co.,<sup>[6]</sup> and becomes a partner there in 1919.

1920 – JK leaves Hallgarten and joins Arthur E. Frank. Jacob Wertheim dies on November 21, 1920, leaving an estate appraised in December 1921 at \$7.3 million gross and \$6.0 million net, including \$2.1 million in Liberty Bonds, \$860,377 in Underwood Typewriter common stock, \$738,675 in Sears Roebuck common stock, and \$560,000 in real estate.

1921 – Finch joins Bankers Trust.

1924 – JK purchases a membership on the New York Stock Exchange (NYSE) and becomes a floor broker.

1927 – MW forms Wertheim & Co. (W&Co.) with JK, Finch and Henry Hottinger, with offices at 57 William Street. Hottinger had been Jacob Wertheim's secretary. In its first deal, announced the week it formally opened its doors, W&Co. acquired a controlling interest in the Underwood Typewriter Co. and later merged it with Elliot-Fisher Co. to form one of the largest office equipment companies of its day. In its early days, W&Co. also established one of the first investment research departments on Wall Street, originally to help the firm's partners invest their own capital. As late as 1971, its well respected reports were produced on onion-skin paper with a gold staple in the corner.

1928 – Herb Goldstone joins W&Co.

1929 – Stock market crashes in October after a period of rampant speculation; W&Co., out of the market before the crash, is not hurt.

1930's – W&Co. buys Nedicks (a New York restaurant chain famous for its hot dogs) for \$46,000; takes out \$3 million in dividends over the years, and eventually sells it for \$4.5 million in 1951. W&Co. investment banking clients include: Continental Baking; Bristol Myers; Spiegel; Underwood Typewriter. W&Co. partners liked to take long winter vacations in Cuba, which was then a playground for Americans seeking a break from the puritanical constraints of Prohibition (1920-1933). Cuba was also the headquarters of some of the biggest sugar companies in the world. Before long, W&Co. had an interest in a number of sugar growers and refiners. MW bought a home in Cuba and visited there regularly. In addition, through partnerships, first with Arnold Kirkeby, and later with Jesse Sharp and Spencer-Taylor, W&Co. made many investments in real estate, particularly hotels and office buildings, the market for which was severely depressed because of the Depression. Control of these properties was obtained by buying up defaulted mortgage bonds that were selling for a fraction of their face value. Among the firm's many investments were: 120 Broadway (Equitable Building); 1 Fifth Avenue; the Madison Hotel; Hampshire House; Brooklyn Towers; The Warwick; Saranac Inn; Hotel Nacional de Cuba; Blackstone Hotel in Chicago; Beverly Hills Hotel in Los Angeles; the Ritz Towers; Delmonico's. Finch leaves W&Co.; Richard Bernhard joins W&Co. Bernhard, married to Dorothy Lehman, provides close contact with other major investment banking firms in New York. MW divorces his first wife (1929); marries Ruth White Warfield; divorces again (1935);<sup>[7]</sup> and marries Cecile Berlage;<sup>[8]</sup> moves his NYC residence to the penthouse at 33 E. 70th Street.

1930 – Walter Laband, a German-trained banker, joins W&Co. with responsibility for the foreign

offices acquired from Colbin & Co., operating out of London and Amsterdam. Primary activity is arbitrage in foreign securities.

1932 – Demise of the firm of Hilson & Neuberger brings Edwin “Eddie” Hilson, Milton Steinbach – who was JK’s brother-in-law – and George Jones to W&Co. Hilson was an irrepressible deal maker. His formal education reportedly ended when he was expelled from Exeter at the age of 16 for adolescent high jinks. He went to work selling cigars in western Pennsylvania to coal miners (like MW, Hilson’s father was in the cigar manufacturing business), was drafted into the army during WW I, and then came to Wall Street. A friend from Exeter introduced him to Harry Neuberger, who put up the money to start Hilson & Neuberger. Another friend of Hilson from P.S. 6 in NYC was Sidney Weinberg, who became head of Goldman Sachs. Steinbach was a product of Andover and Yale. Jones was Hilson’s assistant. Meanwhile, in the same year, the Dow Jones Industrial Average (DJIA) bottomed at 41, down 89% from the 1929 high of 381. NYSE volume declined to 425 million shares from 1.1 billion in 1929 and 810 million in 1930. The value of a seat on the NYSE fell to \$68,000 from \$550,000 in 1929. The U.S. unemployment rate in 1933 reached 25%.

1933 – Roosevelt proclaims a bank holiday and embargoes gold. Congress passes the Securities Act of 1933 (the “truth in securities law”). W&Co. moves its funds into Treasury Bills before the bank holiday.

1934 – Alfred Kleinbaum joins W&Co. The Securities and Exchange Commission (SEC) is established by Congress under the Securities Exchange Act of 1934.

1935 – MW purchases The Nation,<sup>[9]</sup> the oldest liberal weekly magazine in the U.S., when it was on the brink of bankruptcy, and his daughter, Barbara, begins to write for the magazine. Two years later, he sells the magazine to its editor. The same year, MW also purchases from the Chubb Family (Chubb Insurance) the lease for private fishing on the entire Saint Anne River on the Gaspé Peninsula in Quebec. On the river, he built a lodge at the Serenity Pool. In 1969, all leases for private fishing on the Saint Anne River were ceded by Cecile Wertheim to the Government of Quebec.

1936 – MW begins his remarkable collection of late-19th and early-20th century Impressionist paintings and sculpture. After his death, the collection was given to Harvard University and is now housed at Harvard’s Fogg Museum in Cambridge. Most of the works in his collection were acquired during WW II.

1940’s – As the decade begins, Steinbach is the firm’s investment banker, JK is the firm’s stock picker and trader, Hottinger is the firm’s administrator, Hilson is the deal man, Bernhard is the contact man with other Wall Street firms, and MW is increasingly involved in public affairs and personal interests. Banking clients include: Continental Baking, Helena Rubenstein. The firm’s foreign offices are closed because of WW II. Cuban operations provide a shelter from the excess profits tax during WW II.

1941 – MW named president of American Jewish Committee.

1942 – MW moves to Washington DC as a member of the War Production Board.

1946 – MW leads the American chess team as its non-playing captain against the Soviet team in Moscow in a match played over the radio.<sup>[10]</sup> Leband retires, and makes a personal gift of one week’s salary to every employee of the firm. Bob Bach joins the firm after graduating from Princeton and serving in the U.S. Navy.

1947 – MW donates 1,800 acres in Suffolk County to the U.S. Fish and Wildlife Service as a wildlife refuge (the Wertheim National Wildlife Refuge). Maurice and his wife, Cecile, had previously managed

the area as a private waterfowl conservation and hunting reserve.<sup>[11]</sup>

1948 – MW publishes a book entitled, “Salmon on the Dry Fly.”

1949 – W&Co. has nine partners: MW, JK, Hilson, Steinbach, Jones, Goldstone, Bach, Hottinger and Allen “Pete” DuBois, who is the head of the underwriting department. Wilbur Cowett joins W&Co. and begins to work closely with Hilson.

1950’s – W&Co. is one of the leading U.S. firms in trading foreign securities. Investment banking clients include: Armour and Company; Food Fair; Spiegel; Shoe Corp.; Miles Shoe. Bill Kerr joins W&Co. from Bacon Whipple. Kerr had excellent contacts in the industry as president of the Investment Bankers Association of America (forerunner of the Securities Industry Association) in 1958-1959. W&Co. is active in trading telephone bonds in joint accounts with Goldman Sachs and others. Most of the real estate holdings are liquidated.

1950 – MW dies at the age of 64; his obituary noted that he was a trustee of the American Wildlife Foundation; a noted fisherman; a tournament chess player; a founder and director of the New York Theatre Guild, an equestrian, and a director of the Underwood Corporation, the Cuban Atlantic Sugar Company, the Hat Corporation of America, and the Bond Stores Company. He was also a trustee of Mount Sinai Hospital and of the Federation of Jewish Philanthropies. John Hilson, son of Eddie Hilson, joins W&Co.

1952 – Eddie Hilson dies at the age of 57. He had become involved in politics through his wife, Mildred, who remained active after his death and became a close friend of the Eisenhowers. President Eisenhower painted a portrait of her, and her 90th birthday party in 1988 was attended by such notables as Richard Nixon (who played “Happy Birthday” on the piano for her) and Henry Kissinger.<sup>[12]</sup>

1953 – Alan Cohn joins W&Co.

1954 – 120 Broadway sold to William Zeckendorf.

1954 – Fred Klingenstein (FAK), son of JK, joins W&Co., eventually leading a shift in the firm’s emphasis from merchant banking to investment banking, asset management and institutional brokerage.

1959 – John Klingenstein (JBK), son of JK, joins W&Co. Fidel Castro takes over in Cuba and confiscates U.S. investments; W&Co.’s investments in Cuba were liquidated long in advance.

1960’s – W&Co. becomes one of about 20 “major bracket” underwriters, assisted by Kerr, and by close relationships between Steinbach and Gus Levy at Goldman Sachs, and between Cowett and Ralph DeNunzio at Kidder Peabody. Investment banking clients include: Dreyfus, Armour, Ward Drug. Bob Bach spearheads efforts to expand institutional brokerage operations.

1962 – W&Co. moves its offices from 120 Broadway to the recently constructed, 1 Chase Manhattan Plaza.

1964 – Office opened in Paris.

1965 – DJIA approaches 1000 with a high for the year of 969, but will not cross that threshold until 1972, and will then stay around that level until 1983.

1967 - Acquisition of Martin E. Segal Co. adds to growth in investment management operations.

1969 – W&Co. successfully defends its client, Armour, from a hostile takeover bid by Greyhound.

1970 – Steinbach dies at the age of 67; his obituary noted that he had been a trustee of Mt. Sinai Hospital since 1956, a leader in the establishment of the affiliated School of Medicine of the City University of New York, president of the school's trustees from its organization in 1963 until his death; a governor of the NYSE from 1964 to 1969; assistant treasurer of the Federation of Jewish Philanthropies; a charter trustee of Andover; and a member of the executive committee of Yale's development board and its Commission on Alumni Affairs.

1972 – Most operations of the firm are incorporated and FAK becomes Chairman and CEO of W&Co., Inc. Office opened in Philadelphia.

1973 – LEWCO Securities Corp. formed in partnership with Lehman Bros. to consolidate back-office operations.

1974 – Robert Shapiro joins W&Co. from Lehman Brothers and leads a buildup in corporate bond department and initiates the firm's entry into risk arbitrage, U.S. government securities, and OTC trading.

1976 – JK dies at the age of 85; his obituary noted that he was a long-term benefactor of Mt. Sinai Hospital, of which he was a trustee since 1941 and a former president and vice president; chairman emeritus of the board of the Mt. Sinai Medical Center; a governor of the NYSE from 1938 to 1944 and from 1947 to 1953; a board member of the Federation of Jewish Philanthropies; and a trustee of Temple Emanu-El. He was, by all accounts, a brilliant stock market trader / investor, with a strong "value" orientation and one of the original "contrarians."

1977 – W&Co. moves its offices from 1 Chase Manhattan Plaza to the Pan Am Building.

1978 - W&Co. acquires Philadelphia office of White Weld & Co..

1979 – Office opened in San Francisco.

1982 – Office opened in London. Martin E. Segal<sup>[13]</sup> buys his firm back from W&Co.

1983 – Office opened in Boston. DJIA finally breaks out decisively above 1000, climbing to a peak of 2722 in 1987.

1984 – W&Co. acquires Geneva office from A.G. Becker. Lehman Bros. is acquired by Shearson and pulls out of LEWCO; Moseley and Hambrecht & Quist (H&Q) join LEWCO.

1985 - An article by Dan Rottenberg in the September issue of *Town & Country* magazine, entitled, "The Explosive New World of Wall Street" (in a section sub-headed "Merchant Bankers" that also provides profiles of Allen & Company, Brown Brothers Harriman & Co., Dillon, Read & Co. and Lazard Freres & Co.), describes Wertheim & Co. as follows:

"Founded 1927. An old-fashioned, one-office family firm known for making big profits by quietly investing its own partners' money. In the best tradition of merchant banking, it has a long history of buying into private companies, then taking them public. It was one of the first firms to have a research department (in the 1920s), but often prides itself on its anachronistic ways: as late as 1971, the firm's external research reports were mailed out on onion-skin paper with a gold staple in the corner. Founder Maurice Wertheim (1886-1950) started out in the cigar business, became an investment banker in 1915

and launched his own firm twelve years later. He was also publisher of *The Nation*, a noted art collector, a fisherman (he gave the government 1,800 acres in Suffolk County as a wildlife refuge) and tournament chess player; his daughter is historian Barbara W. Tuchman (*The Guns of August, A Distant Mirror*). Maurice Wertheim ceased to be active in the firm after about ten years and the controlling interest passed to co-founder Joseph Klingenstein, a renowned stock picker and philanthropist. He was active in Mount Sinai Hospital, which he visited every morning before work, even on Saturdays. His son Frederick Klingenstein, a Harvard Business School graduate, heads the company today. (Fred's brother John, formerly a civil engineer, is also with the firm.) Robert Shapiro, hired by Fred Klingenstein from Lehman Brothers to run the firm, is chairman of the board of the Securities Industry Association this year. The firm is growing more entrepreneurial and less cautious lately."<sup>[14]</sup>

1986 – Schroders, plc, a British merchant bank, purchases a 50% interest in W&Co. Firm's name changed to Wertheim Schroder & Co. (WS&Co.).<sup>[15]</sup>

1988 – WS&Co. moves its offices from Pan Am Building to Equitable Tower. Firm becomes a Primary Dealer in U.S. government securities. Moseley goes out of business, leaving WS&Co. and H&Q as co-owners of LEWCO. Fred Klingenstein leaves W&Co. to form Klingenstein Fields & Co., an investment management firm [www.klingenstein.com].

1989 – WS&Co. sells minority interests to three institutions: Mitsubishi Trust and Banking Corp., Bank of Boston, and Massachusetts Mutual Life Insurance Company.

1990 – WS&Co. acquires Amsterdam and Houston offices from Drexel Burnham.

1994 – Schroders acquires the other 50% of WS&Co.

2000 – Schroders sells its global investment banking operations, including WS&Co. (the name of which had been changed to Schroder Wertheim & Co. and then to Schroder & Co.) to Salomon Smith Barney, a subsidiary of Citigroup.<sup>[16]</sup>

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