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Alfred Lee Loomis

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How They Did It

Tales of the Greatest Investors of All Time

Alfred Lee Loomis

Alfred Lee Loomis was accomplished in many areas, including science, philanthropy, law and investment banking. His laboratory in Tuxedo Park, New York was responsible for the development of enormously prolific scientific contributions, especially to the U.S. defense in World War II. He is not to be understated as a scientist; however, this discussion is not focused on Loomis the scientist, but on Loomis the investor. Originally, he was an attorney. Later he became an investment banker who made a lot of money in the 1920s in utilities. He and his partner, Landon K. Thorne, took over a nearly bankrupt investment bank known as Bonbright. Between 1924 and 1929 Bonbright underwrote 15% of not merely utility securities, a field in which Loomis specialized, but of all the securities issued in the U.S.

An interesting point about Loomis is that he, more than anyone else, is probably responsible for the evolution of the American utility industry as it existed in 1929. Books written about the industry at that time give credit to a gentleman known as Samuel Insull, a utility entrepreneur. Insull is said to be the pioneer of the holding company structure, also known as the pyramid structure. An example of how that structure works is when Company A buys shares with leverage of utility B, which in turn buys shares with leverage of utility C, which then buys shares with leverage of utility D and so on in a vast chain. That structure proved to be very dangerous.

Since that time, Insull has been recognized as the person responsible for creating the holding company structure for utilities. I went to the library and found that Insull made the cover of *Time Magazine* three times during that era of leveraged utilities—remember this is the cover of *Time Magazine*. That was before the evolution of the Public Utility Holding Company Act of 1935, which made the holding company structure illegal for utilities. The first time that Insull made the cover of *Time Magazine* was on November 29, 1926. Three years later, on November 4, 1929, he was again on the cover of *Time Magazine*. The third time that he made the cover of *Time Magazine* was on May 14, 1934, but the story in that issue was very different from the first two issues. The earlier articles praised Insull as an innovator in utilities, but in 1934, he faced Federal fraud charges. He nearly went to jail, but in the end he was acquitted on all counts.

When I looked through the *Time Magazine* archive, I could only find mention of Alfred Lee Loomis in the June 9, 1930 issue in an article on utilities. His name was mentioned as one of many utility entrepreneurs, but there were no details about him. As an aside, at the

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time of that June 9, 1930 article, the utility industry was very leveraged and was on the verge of collapse, but you won't find the slightest hint of that situation in the article.

It was Loomis who created the enormous holding company structure for utilities, not Insull, though the latter did his share. The difference between Loomis and Insull was that Loomis began selling heavily in 1929, and Insull did not. The final triumph of Loomis and his partner Landon K. Thorne was in 1929 when they convinced the Morgan banking interests to back yet another leveraged utility holding structure known as United Corporation, which owned some of the largest utilities of the time, including Columbia Gas and Electric. That transaction created the largest, and probably the most valuable, utility holding company structure the U.S. had then seen, leveraged as it then was. With that accomplished, Loomis and Thorne began selling heavily so that when the stock market crash and the Great Depression made their appearances, they were heavily in cash.

The point of presenting all of this material is to illustrate that historians, like journalists, have a bias to the negative. Leverage is a tool that can be abused but, as with Loomis, it can also be used to great effect in creating wealth. Information on Loomis is hardly recorded and it's only with great difficulty that one researches what actually occurred. In the case of Samuel Insull, there is very little difficulty in finding information, because he became infamous for employing leverage. There is a bias in western civilization that comes from the Judeo-Christian view that there is something inherently wrong with borrowing money. It can be detrimental if abused, but when used with appropriate moderation and safeguards, it is a valuable tool. In our society, we swing from one extreme to the other, from using debt in a very profligate manner to eschewing debt in any form. The result is that we never really understand the nature of debt.