

Profiles in american enterprise 1674 essay



**ASSIGN
BUSTER**

A. G. Edwards Inc.

The industry for securities is undoubtedly an exciting and fast paced industry. This means that brokerage firms such as A. G. Edwards and Sons must always be watching the stock prices on every stock in the market so that they can give their clients maximum profit. When A. G. Edwards and Sons' clients do well then in turn so does the brokerage firm. A. G. Edwards Inc. is not the biggest corporations in America, but yet it is still a very large corporation and has great importance in the industry for which it participates. This paper will give an in depth explanation about how A. G. Edwards functions as a corporation.

Along with competition from the government, banks and other brokerage firms there is also probably the biggest factor involved of interest rates. Interest rates are indirectly proportional to the activity in the stock market. This means that when the interest rates fall the market for securities becomes active. This is due to the fact that people want the highest yield on their money and when interest rates are low, investing money into a bank would yield less money than it would

have before at a higher interest rate. So people tend to want to put their money into something that will give them a higher yield and stocks are just that.

An example of this inversely proportional relationship is always being demonstrated and was demonstrated in the past few years. At the end of 1992 to the beginning of 1993 the volume in most businesses was at record levels obtaining a pre-tax net income for the whole industry of 9.1 billion dollars setting a new record for the second year in a row (Hoover's Company & Industry Database, 1993, p. 1 (Hoover, 1993, p. 1)).

This trend continued when in the beginning half of 1993 offerings (new business for the company) exceeded those of 1992 (Hoover, 1993, p. 2).

Examples of this are as follows; more than 700 billion dollars of debt was issued in 1992 and then in the first half of 1993 another 440 billion dollars of debt was issued (Hoover, 1993, p. 2). More than half of this debt was due to asset-backed debt such as credit cards and other charges made to credit (Hoover, 1993, p. 2). These debts were included because the debts were more or less sold to banks and other money

lending institutions who were more willing to take the risk for the high interest rate.

This drop in interest rates did wonders for the brokerage firms involved and also corporations that had acquired debt over the years. The fall of interest rates was great for the brokerage firms because of the increase in business with the public's desire to invest. So the corporations used it to issue off more stock to the public to pay off their debts (Hoover, 1993, p. 2).

As if interest rates didn't have enough effect on brokerage firms, there is also the heavy competition that was involved. This competition is not only from other top broker-age firms such as Merrill Lynch, Morgan Stanley, Primerica (Smith Barney Shearson), Salomon, and Goldman Sachs, but there is also competition from big banks and securities over seas.

Banks have a number of ways to compete with security firms, but the most prevalent and direct is through mutual funds. Since the late 1980's banks have been aggressively competing with mutual fund sponsors by issuing their own mutual funds to the public (Hoover, 1993, p. 3).

Mutual funds that are issued by banks are now the fastest growing part of the mutual fund industry, with 10.6 percent of total assets and 30 percent of new sales (Hoover, 1993, p. 3). There has just recently been a large amount of competition from markets overseas and this competition continues to increase. There are a few theories as to what has caused so many U. S. investors to invest in foreign markets. It is supposed that it is either individual investors who want to further their portfolio or investing in foreign markets to try and avoid interest rates and changes in currency (Hoover, 1993, p. 4). The investment in foreign markets has also been attributed to technology and the fact that up to date information can be obtained instantly from any place in the world (Hoover, 1993, p. 4). But whatever has caused it global securities have skyrocketed.

Before the organization and structure of the company a brief history and explanation of the company will be discussed. A. G. Edwards & Sons was founded in 1887 by Benjamin Franklin Edwards making A. G. Edwards & Son the first St. Louis brokerage to handle trades for the local banks

on the New York Stock Exchange (Flagg, 1994, p. 56). Then three years later Benjamin's younger brother joined the company changing the name to read A. G. Edwards & Sons (Flagg, 1994, p. 56). In 1898 Edwards bought a seat on the NYSE and then in 1900 opened its first office in New York (Flagg, 1994, p. 56). In 1925 Benjamin's son joined the team and later became a managing partner (Flagg, 1994, p. 56). One of A. G. Edwards & Sons greatest accomplishments in the past was the fact that on Black Thursday the single most largest lost was 5, 000 dollars out of more than one million dollars (Flagg, 1994, p. 56). This well managed event proved that A. G. Edwards had what it took back then to make it in the stock brokerage industry. Later down the line A. G. Edwards & Sons formed a type of mother company entitled A. G. Edwards Inc. which now oversees many other businesses. To this day the company still displays these similar types of skills and that is why the industry has continued to excel.

Despite the fact that most people haven't heard of A. G. Edwards Inc., it is actually quite a large company. The corporation is described as a

“ holding company (Compact Disclosure, 1996, p. 1 (CD, 1996, p. 1)).” The corporation contains many subsidiaries which are the following: A. G. Edwards & Sons, Inc., Ceres Investment Co., Indianapolis Historic Partners, AGE Commodity Clearing Corp., A. G. Edwards Life Insurance Co., Edwards Development Corp., A. G. Edwards Trust Co., A. G. Edwards Asset Performance Monitor, Inc., A. G. E. Properties, Inc., A. G. E. Reality Corp., A. G. E. Redevelopment Corp., Gull-Age Capital Group, Inc., AGE Investments, Inc. (CD, 1996 , p. 12). All of these subsidiaries perform the following tasks: provide security and commodity brokerage services for individual, corporate and institutional clients; distribute mutual funds, handle corporate and municipal unit trusts, tax incentive investments, life insurance and annuities; provide investment banking services for corporate, governmental and municipal clients; and operate as a futures commission merchant (CD, 1996, p. 1). As you can see A. G. Edwards Inc. is indeed a big company and has tremendous assets. Since A. G. Edwards & Sons is the principle subsidiary, when discussing the functions of the corporation the functions of A. G. Edwards & Sons will

mainly be discussed.

A. G. Edwards Inc. is the full name of the corporation and is based out of St. Louis Missouri. The primary office of the corporation is One North Jefferson Avenue, St. Louis MO, 63103-2205. The primary SIC Code is 6211 Security Brokers and Dealers. The other two SIC Codes are: 6411 Insurance Agents, Brokers, and Service; and 6719 Hold-ing Companies, nec (CD, 1996, p. 1). A. G. Edwards Inc. currently contains 11, 279 employees. Since A. G. Edwards Inc. is a corporation it does contain numerous officers the following is a list of the main officers:

Name	Age	Title	Salary
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Edwards, Benjamin F. , III	64	Chairman of the Board, President, Chief	
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Executive Officer, Subsidiary Officer	\$1, 512, 627
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King, Eugene J.	64	Vice President, Subsidiary Officer	NA
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Proost, Robert L.	58	Vice President, Subsidiary Officer	NA
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Avis, Robert	64	Vice Chairman of the board, Subsidiary Officer	\$1, 174, 034
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Dissett, Robert C.	58	Subsidiary Officer	\$893, 849
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Mesker, David W.	64	Treasure, Subsidiary Officer	NA
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Ewdards, Mary G. 53 Treasure NA

Sisler, David M. 60 Vice President NA

In the subsequent paragraphs the organization of the company will be discussed. From reading over all of the sources that have been compiled for this paper it is relevant to me that A. G. Edwards Inc. is a good solid company that treats its customers well and contains employees who are on top of things. One of the biggest problems that brokerage firms are facing is the complexity and strict rules and regulations that are now being pressed upon the firms (1996 Annual Report, 1996, p. 5 (1996 Report, 1996, p. 5)). Since this is occurring in the industry of securities it is very important for A. G. Edwards to stay on top of everything in order to keep up with the competition and stay in business. The following is a quote from A. G. Edwards' annual report: To remain flexible, offer the services investors need and deliver value for what is charged. A. G. Edwards is prepared to meet these challenges. We are confident our service-oriented philosophy, along with our ongoing efforts to provide our investment brokers the latest

technology and support resources, will position us well as we look toward the next century (1996 Report, 1996, p. 5).

From this statement A. G. Edwards declares that they are very prepared for whatever is ahead of them in the future and will make the sacrifices to stay in business and continue to have content stock holders, employees and clients. Benjamin Edwards III, the CEO of the corporation states numerous times that the number one interest of the corporation is to look out for the customer and always be placing them first.

The Organization of A. G. Edwards Inc. is organized like most other corporations. The organization of A. G. Edwards Inc. can be considered centralized. As it can be seen from the preceding chart the organization is hierarchical. There is Benjamin Edwards who is the president and resides over all the other positions in the corporation.

The other positions include subsidiary officer, treasurer, vice chairman of the board, vice president, secretary, and controller assistant secretary. Under the people in these positions is the board of directors and then the stock holders. The interesting aspect about A. G.

Edwards Inc. is since A. G. Edwards Inc. is composed of numerous small corporations each subsidiary has its own board of directors.

Integration in a business sense has been described to me as in the vertical and hori-zontal senses; vertical integration being defined as containing a general sense of one or more industries or being a full service corporation. So basically a corporation that sup-plies numerous services under one roof would be considered vertically integrated. With this in mind A. G. Edwards Inc. is definitely a vertically integrated company. A. G. Ed-wards Inc. is certainly a generalized company since is contains so many subsidiaries.

Since A. G. Edwards Inc. oversees many other smaller companies, it also competes in numerous other markets. These markets are the markets for: stock, futures and com-modity brokerage, life insurance and annuities, mutual funds, corporate and municipal trusts, and investment banking.

This is the section of the paper where the financial aspects of the company are dis-cussed. A chart will mostly be used in order to express the companies standing and then the chart will be explained as to what

the figures for the company signify. The following chart gives a good general outlook as to what is numerically happening financially to the company.

Operating Results 1996 1995 1994 1993 1992

Revenues \$1, 454, 467 \$1, 178, 342 \$1, 278, 641 \$1, 074, 388 \$938, 659

Net Earnings \$170, 582 \$124, 119 \$154, 871 \$119, 425 \$105, 532

Net Earnings as a Percent of Revenues 11. 7% 10. 5% 12. 1% 11. 1% 11. 2%

Earnings Per Share \$2. 65 \$2. 00 \$2. 57 \$2. 07 \$1. 88

Stockholders' Equity \$1, 088, 684 \$919, 281 \$790, 367 \$615, 240 \$492, 010

Return on Average Equity 17. 0% 14. 5% 22. 0% 21. 6% 24. 0%

Total Assets \$3, 102, 085 \$2, 224, 282 \$2, 236, 590 \$2, 111, 192 \$1, 577, 143

From this chart many conclusions can be drawn. Before what the actual numbers signify, the terms in the chart will be explained. Revenue is the total gross amount of money that the corporation brought in for that year. Net Earnings is the net income or the monetary value that the corporation brought in that year after expenses. The earnings per share is how much net earnings the corporation made for every share of the

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company. Earnings per share is more or less the earnings divided by the number of shares that have been issued by the corporation. The stockholders equity is basically what return the public has gotten for investing in the company. Then the total assets is the monetary value of the company and everything that is connected to it. There is also the statistics of the shares of A. G. Edwards Inc. The return on average equity is the return on the money that is in-vested internally. The current outstanding shares are 63, 430, 245. From that number the number of shares held by insiders is 2, 238, 256 and the number of shareholders is 21, 500. On January 31, 1997 the high for the price of the stock was 34. 625 and the low was 33. 125 and then closing at 34. 000 (CD, 1996, p. 8). The stock price for March 4, 1997 was a high for the day at 36 and a low for the day at 35 $\frac{3}{8}$ and then closed at 35 $\frac{3}{8}$ which is the unchanged price from the previous day (America Online, 1996). The earning per share for that day was 3. 21 (America Online, 1996). Based on what has been presented in the preceding paragraphs I think that A. G. Edwards would be a good investment. From what I have read in

the all of the materials that have been at my disposal, A. G. Edwards Inc. made a very good impression on me. They seem to be a corporation that is on a right track and once it can break away from the competition it will be huge. I also think that it is very possible for A. G. Edwards to be-come a great company if it continues with the upward trend in earnings that it has been displaying for the past decade. From the chart I can draw these conclusions just by look-ing at the net earnings and how they have increased almost 70 thousand dollars. This shows that the company has been doing something right and thus could potentially be a good investment.

A. G. Edwards Inc. has done very well in the industry this year making it a record year for 1996, although much of the credit was because of the big jump in the Dow Jones average (1996 Report. 1996, p. 3). A. G. Edwards Inc.” s net earnings reached an all time high and resulted in the paying of more that 100 million dollars in current year income taxes for the first time (1996 Report, 1996, p. 3). Related to the jump in net earnings was the fact that the stockholder” s net worth went to 1. 1

billion dollars, or 17 dollars per share (1996 Report, p. 3).

A. G. Edwards Inc. has undoubtedly experienced a great year weather or not they can be credited with their success. Because of the increase in earnings that A. G. Edwards has experienced the corporation was able to expand their office locations (1996 Report, 1996, p. 3). In the fourth fiscal quarter A. G. Edwards Inc. opened offices in Harrisburg, PA; Galesburg, Ill; Griffin, GA; granting A. G. Edwards a total of 536 locations (1996 Re-port, 1996, p. 3). Including these office locations, there were twenty more other office locations added around the United States for the year of 1996 (1996 Report, 1996, p. 23). A. G. Edwards was also able to increase its number of investment brokers to 5, 757 by the end of the year, an increase of 5% from the prior year (1996 Report, 1996, p. 23). Also in the past twenty years A. G. Edwards has grown to 483 offices in 48 states (Siconolfi, 1993, p. 23). The broker sales force more than doubled since the year of 1984 (Siconolfi, 1993, p. 24). These are great changes for the corporation and shows investors that the company has a sure footing in the industry. There has also

been the past changes in the corporation with the continuous adding of smaller subsidiary corporations which all perform separate tasks under the name of A. G. Edwards Inc.

From this paper the reader should have learned a great deal about A. G.

Edwards Inc. A. G. Edwards Inc. is an interesting corporation because of numerous reasons. Probably the number one reason for this is the fact that its main subsidiary is a brokerage firm and brokerage firms are fast paced people working together with other people. When you have this combination the future can never be predicted with great accuracy.

The corporation is so big considering that it contains so many other companies, and any corporation with numerous other corporations underneath it is always fun to learn about. From this paper it is my hope that the reader has become more knowledgeable about the corporation A. G. Edwards. Not only how much money the corporation has pulled in or what it does, but also about how it is run and what the attitude of the company is.

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