

Paul Cabot

Brief life of an investment pioneer: 1898-1994

by MICHAEL R. YOGG

CRAACK! Paul Cabot pulled his ROTC rifle back from his dorm's open window and surveyed the damage. Students had been holding a dance in the Yard. The shot, though only a blank, "had a terrific effect. All the little girls thought the Germans were out for them." It was 1918, a warm May evening at the end of his freshman year, the night before he was to go on active duty. Whether it was the war or the whiskey, Cabot thought nothing of shooting into a dance. "I let go another round. [The proctor] caught me with the rifle with the smoke coming out of the barrel. Luckily my friends kicked the booze under the bed.... I knew I was in major trouble." He later insisted, "I was not drunk and nobody in my room was drunk," but a dean concluded that he was "considerably illuminated by liquor" and only family connections saved him. His father interceded with President Lowell, an old friend, and the marksman escaped with an "admonition."

From such unpromising beginnings emerged a much admired—and respected—corporate leader. Cabot (A.B. '21, M.B.A. '23, LL.D. '66) would later found an early mutual fund and establish its extraordinary investment record, campaign against financial abuse in the 1920s and for securities law reform in the 1930s, and shift the Harvard endowment toward equities when he became the University's treasurer in 1948, just in time for the bull market.

In 1923, Cabot spent six months in London working for the First National Bank of Boston. "The manager was a horse's ass of the first order....," he later recalled. "He never allowed us kids to do anything." But that allowed Cabot to pursue a personal interest, the study of British investment trusts. A friend, the grandson of J.P. Morgan, had introduced him to Morgan's business associate, Robert Fleming, who was living in London at the time, and Fleming became Cabot's informal tutor. In the nineteenth century, Morgan and Fleming had spearheaded the transfer of British and European investment capital to the American railroad industry. Fleming almost surely told Cabot that the key to Morgan's success was his frequent meetings and active involvement with the managers of the railroads to which he lent money.

Once back in Boston, Cabot began meeting weekly at the Parker House with his cousin Richard Paine '17 and friend Richard Saltonstall '20 to "yak about common stocks." In 1924 they formed one of the first mutual investment companies—unquestionably the first whose partners visited companies and interviewed managers before deciding to invest. They also developed their own financial models of the companies to help them pick stocks. Their performance reflected their information advantage. From 1925 to 1929, State Street Investment Corporation returned 434 percent, more than twice the return of the market. If its performance re-

gressed toward the mean in later decades, that was only because its better competitors adopted its methods.

Cabot had learned another lesson in London: trust managers could be unscrupulous. He had read about their behavior during the mania of the 1880s and, when he saw the same things happening in the United States in the 1920s, he spoke out. In 1928, one fund group decided that Cabot was talking about them and demanded that the Shawmut Bank, where he was a director, shut him up. Cabot "flamed up. I got so goddamn mad I said, 'Why the sons of bitches.'...I trotted up to the *Atlantic Monthly*, the editor of which happened to be my uncle, and gave him this speech and he published it....It went all over the country and I got a hell of a lot of letters." As scandals surfaced after the market crash, Cabot's reputation was made. He became known as a brilliant investor, a prescient critic of financial abuse, and a man of integrity.

For the next 65 years, Cabot used his position for both personal gain and the public good. His investment firm thrived. Even as others copied his methods, the performance and prestige that came from being the first to do primary research gave State Street an advantage in recruiting employees and clients that lasted into the 1980s. Cabot's reputation for honesty and savvy made him a sought-after witness on Capitol Hill when legislation important to the mutual-fund industry came up for consideration. This included the Revenue Act of 1936, which prevented the triple taxation of mutual-fund dividends, and the Investment Company Act of 1940, which established the ground rules for the industry—in a way that allowed the already well-established Boston funds to flourish, because there were no limitations on size; only moderate restrictions on sales practices; and liberal rules governing the funds' relationships with broker-dealers. His successful management of the Harvard endowment not only benefited the University, but contributed to State Street's reputation as an investment-industry leader, aiding its marketing efforts.

Toward the end of his life, Cabot was asked what the key to his investment success had been. "First you've got to get the facts," he said. "Then you've got to face the facts." The devotion to the facts, to truth, to *Veritas*, was the key difference between the boy of 20, who acted recklessly and lied about it, and the adult who, by the age of 30, was well on his way to becoming rich and famous by virtue of his hard-headed realism and intellectual honesty. ▢

Michael R. Yogg, Ph.D. '78, an investment manager in Boston, is writing a book-length biography of Paul Cabot.

Opposite: The photograph is from Cabot's twenty-fifth-reunion report.

The New York Times

THURSDAY, SEPTEMBER 24, 1936.

CABOT URGES LAWS FOR CURBING TRUSTS

Admits Abuses Exist in Some Investing Concerns and Favors Protecting Public.

WOULD LIMIT BORROWING

Head of Boston Organization That Grew From \$100,000 to \$50,000,000 Heard by SEC.

Special to THE NEW YORK TIMES.
WASHINGTON, Sept. 23.—Testifying before the Securities and Exchange Commission today, Paul C. Cabot, president of the State Street Investment Corporation of Boston, outlined some recommendations that in his opinion the commission should make to the next Congress and also some things that he thought the commission should not recommend.

State Street Investment, which started in 1924 with assets of \$100,000, which are now above \$50,000,000, never has listed its shares on any Stock Exchange and its officers said it probably never would do so.

Mr. Cabot said the two most important things in the investment trust business are "honesty and ability."

"I want to say," continued Mr. Cabot, "that the recommendations for positive legislation which we propose are not made because we

RAIL EXECUTIVES MEET IN CHICAGO

To Take Up Proposed Reorganization



STATE STREET INVESTMENT CORPORATION

INCORPORATED IN MASSACHUSETTS
200 STATE STREET, BOSTON, MASS.

PROMOTER

Paul C. Cabot

OFFICIALS AND DIRECTORS

Paul C. Cabot
Walter A. Cabot
Charles W. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot
Walter A. Cabot

Cost of Sales
Revenues
Cost of stocks sold as follows:
25 *Windsor Bakery Corp.* @ 80% 2,016.25
200 *W. Sprink & Son Food* 42% 8,480.00
50 *Ward Baking Co.* 100% 5,037.50
50 *Millard Hill Bk.* 0 4,037.50
100 *Commonwealth Bk.* 95% 9,622.50
29,193.75