

The SEC and Why It's There

The Wild West of Wall Street

Before the SEC, Wall Street was a lawless frontier. Companies could lie about profits, banks manipulated stocks, and insiders cashed in on secrets. Retail investors? They were unsuspecting prey.

The Crash That Shook the Nation

In 1929, the stock market crashed, wiping out \$18 billion in value within two months. By mid-1932, 85% of the market's worth was gone. The Great Depression ensued, with unemployment soaring to 25% and the economy in shambles.

Enter the SEC

In response, Congress passed the Securities Exchange Act of 1934, creating the Securities and Exchange Commission (SEC). Its mission:

- **Protect investors**
- **Maintain fair, orderly, and efficient markets**
- **Facilitate capital formation**

The Mastermind: Joseph P. Kennedy

President Franklin D. Roosevelt appointed Joseph P. Kennedy, a savvy financier, as the first SEC chairman. Kennedy's insider knowledge of Wall Street's tricks made him the perfect watchdog.

The Dirty Tricks That Needed Stopping

1. Pump-and-Dump Schemes

Groups like the "Radio Pool" artificially inflated stock prices (e.g., RCA), then sold off, leaving everyday investors with worthless shares.

2. Fake Financial Statements

Companies reported fictitious profits, luring investors into buying stocks based on lies. There were no standardized reporting requirements to prevent this.

3. Insider Trading

Executives traded on non-public information, profiting while the public remained in the dark. This practice was rampant and legal before the SEC stepped in.

4. Margin Loans to Retail Investors

Brokers encouraged investors to buy stocks on margin (borrowed money). When the market dipped, margin calls forced investors to sell at a loss, leading to financial ruin.



Building a Safer Market

The SEC introduced:

- **Mandatory disclosure:** Companies must provide accurate financial information.
- **Regulation of securities markets:** Oversight of trading practices to prevent manipulation.
- **Enforcement of laws:** Legal action against fraud and insider trading.



Restoring Confidence

These measures aimed to restore public trust in the financial markets, encouraging investment and aiding economic recovery.

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