Paper Gains

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When Enron went into bankruptcy, its stock and debt were viewed as pretty much worthless. Now, seven years after one of the most memorable corporate failures in history, a 9-1/2% bond from the defunct energy company has an offer price of nearly $300.

Chances are the folks who will buy the bond issued in 1988 with Ken Lay’s signature are not distressed debt investors but hobbyists who enjoy collecting paper bond and stock certificates, a pastime known as scripophily.

For many, the bond and stock certificates’ allure is the intersection of finance, history and art. Many of the companies are famous, either for their success or their spectacular failures. The certificates offer ornate artwork celebrating some aspect of a business. Pennsylvania Railroad certificates show off the railroad’s Horse Shoe Curve, tracks running through Pennsylvania’s mountains near Altoona. The New York Central

By Aleksandrs Rozens
FIVE PER CENT. PROFIT SHARING

Union Pacific Corporation

PAN AMERICAN
A Baltimore & Ohio Railroad Company preferred stock certificate.

...illustrated its bonds and stocks with ornate illustration of its founder, Cornelius Vanderbilt, and Grand Central Terminal.

Many railroads issued debt to finance their race across the American continent, so their certificates illustrate fanciful scenes of the American West with Indians and covered wagons, as well as rough wilderness. On Oklahoma Oil Corp. stock signed by J Paul Getty from the 1920s, you will find an ornamental border which incorporates scenes of oil derricks, oil tanks for storage and oil rail cars. Early Playboy Enterprises common stock features the profile of its trademark bunny and a nude of a woman.

"People collect them for the artwork, the historical significance of the company, and some people collect because they have family in the company or use the company's products," says Robert Kerstein, who runs Scripophily.com, a Web site dedicated to bond and stock certificates. The certificates are given as retirement presents, collected, and used to add spice to offices. Buyers have included collectors from the UK, Spain and Russia, says Kerstein.

In his history of the pastime entitled "Scripophily: The Art of Finance," Keith Hollender estimates that there are some 100,000 collectors, 200 dealers and 20 to 30 auction houses involved with bond and stock certificates.

"It makes the history come alive. When you read about these things in a textbook it is different from holding a piece of paper," says John Herzog, co-founder of Herzog Heine Geduld, a leading Nasdaq market maker that was sold to Merrill Lynch in 2000. "This gives you a way to touch different events in American history."

Herzog, founder of the Museum of American Finance in lower Manhattan, where pieces of his bond and stock collection are exhibited, is an active proponent of scripophily. He is chairman of Smythe and Co., which specializes in the auction of bank notes, stamps and coins.

Herzog was bitten by the bond bug early in his career as a stock broker.

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**BAD MARKET, GOOD CROWDS**

Maybe it's a way to piece together what is happening to their 401K plans or private stock portfolios but, believe it or not, bad news about the financial markets usually brings in more visitors to the Museum of American Finance.

"We always did better during market downturns in terms of the number of visitors," says Kristin Aguilera, a spokeswoman for the museum, which is located in lower Manhattan on Wall Street. The museum was started up by John Herzog, co-founder of Herzog Heine Geduld, a Nasdaq market maker acquired by Merrill Lynch in June 2000. His idea was sparked after the crash of 1987 and Herzog says he wanted to use the museum as a vehicle to "bring the capital markets closer to individuals on Main Street."

One day last week, the museum had visitors that included tourists and a class of schoolchildren. Later that day, a Russian television news crew was set to visit the museum, which chronicles finance in New York from the days of the Dutch to the subprime markets crisis.

In addition to tracking the development of US banks — the museum itself is in the former headquarters of the Bank of New York — the Museum of American Finance offers exhibits explaining commodities and bond markets. In fact, the bond markets exhibit offers a prospectus for debt issued by Pakistan.

For those considering dabbling in scripophily there are plenty of examples of bond and stock certificates such as a share from Harry Houdini's production company signed by the magician, an Edison Works stock certificate signed by Thomas Edison and shares issued by Buffalo Bill used to finance his Wild West Co.'s tour of Europe.

Of course, for those who just haven't got enough of bubbles, visitors can take a peak at South Sea Co. stock signed by Isaac Newton.
purchased his first bond from a Greenwich Village antique store in the late 1950s. His original intention was to put the certificate on the wall of his brokerage to use as a talking point with potential customers. “I got this thing home and noticed it was signed by William H. Vanderbilt,” Herzog recalls, adding “at that instant it was all over for me.”


Some of these Jewish Colonial Trust issues are popular as bar mitzvah gifts, says Herzog.

Kerstein, who was a CFO of a number of companies including Falcon Cable TV in California, Los Angeles Cellular and McCaw Cellular, was smitten by stocks and bonds in the 1990s when he went to a Civil War memorabilia convention. He purchased a bond issued by the Confederate States with an image of Stonewall Jackson and then started collecting civil war scrip, eventually moving on to stock certificates.

In 1995, Kerstein was involved with building a net presence for Orca Bay Sports and Entertainment, owners of the Vancouver Grizzlies and the Vancouver Canucks. He set up the first NHL and NBA team Web sites and that experience of working on the Internet prompted him to open up a Web site devoted to historic bond and stock certificates.

When it comes to paper issued by Enron, “we sold Enron certificates to short sellers. They made so much money, they wanted to keep a certificate,” says Kerstein. “Some people who lost money wanted a certificate. A Wall Street diploma is what we call it.”

Some of the certificates are prized not just because of the history of the issuing companies, but also because of the signatures on the bonds. For example, a Standard Oil Trust stock certificate with a signature by John D. Rockefeller will sell for $3,000. Some Standard Oil Co. certificates have been sold for as much as $8,000 because the oil company preceded the trust as an issuing entity and some of these issues are among the earliest sold by Standard Oil.

One of those owners of the Standard Oil scrip with Rockefeller’s signature is Malcolm Epstein, a stockbroker with Smith Moore & Co. in Jefferson City, Mo.

The bonds in his collection, Epstein says, “are ornate and I see no reason they should not be considered art.”

Indeed, the certificates themselves are of high quality paper with engravings, some of them created by cutting into copper or steel. The manufacturers of many of these certificates were often companies that printed bank notes and postage stamps. Hollender says in his history of the hobby.

In the US, the biggest manufacturer of these stock and bond certificates was American Bank Note Co. and in the UK one such notable printer was Waterlow & Sons. The design work on the actual certificate — a vignette related to the nation or company issuing the debt or stock — often was created by the printer with suggestions by companies or countries. In the US, the ornate bond and stock certificates are the earliest forms of commercial art, says Herzog.

Outside of the US, certificates from the late 1920s offer touches of Art Deco style while earlier pieces have Art Nouveau-inspired ornamentation.

Another big seller in recent years has been scrip from Buckeye Steele Castings which features a signature from President George Bush’s great-grandfather, Samuel Prescott Bush. Demand for these rose when President Bush was elected, and shortly after the 9-11 attacks. Now, though, demand for these particular issues has waned because either Bush presidency is soon to end or because of a decline in his popularity, according to Kerstein. “They sell very slowly now.”

Collectors do not only value scrip issued by US companies; Russian railway bonds — issued in the days of the Czars — and Chinese railway bonds issued prior to the birth of Communist
China are also popular.

The story of the Russian Czarist-era debt is an interesting one. At the time of the Russian Revolution in 1917, well over one billion pounds sterling worth of Russian debt was outstanding, but the newly created communist state refused to honor the debt. In 1986, Britain and the former Soviet Union announced a settlement for bond holders who were not paid after the fall of the Czar. The agreement between Britain and the former Soviet Union used money that belonged to the Russian Imperial family and had been frozen in Britain in 1917.

Also popular with collectors are issues from World War II-era Germany and Japan, according to Kerstein. Some Japanese World War II-era certificates have illustrations of warplanes and ships. Some issues are even stamped with a note commemorating Japan's attack on Pearl Harbor in December 1941.

World War I Liberty bonds are popular, as are World War II savings bonds. Interestingly, those savings bonds are worth more if they are cashed in because they collected interest even after World War II.

“World War II Series E savings bonds are worth two or three times face value as a collectible, but if redeemed they are worth four or five times face value,” says Kerstein. The face value of these Liberty Savings bonds range from $25 to $1,000. The higher the denomination the scarcer the bond.

The phrase scripophily came into being after a 1978 Financial Times contest aimed to come up with a term for the love of collecting bonds and stock certificates. “Scrip” is the ownership of stock and “ophily” is a derivative of the Greek term of love — philos.

Enron shares are not the only scrip in demand for a company or business that fails dramatically. Kerstein says he has sold South Sea Co. transfer certificates and there have even been issues from Keely Motor Co., a business set up to create a fictitious perpetual motion machine powered by water in the 1880s.

For those investors who think getting a price on a bond is tough in these market conditions, they ought to consider how collectors track the value of certain scrip years after it was issued.

Some of these collectors have traced the value of Confederate bonds backed by bails of cotton in 1863. This debt initially sold at 90 cents, or 90% of par value, but after the battle of Vicksburg, the Mississippi River's traffic was disrupted and an important route for Southern cotton was disrupted. As a result, Confederate debt backed by cotton fell to 15 cents on the dollar.

It is the kind of event risk that has been seen on more than one Wall Street emerging markets trading desk in the last two decades.

Collectors of scrip, meanwhile, may soon be able to squeeze the market for collectible stocks and bonds. These days, issuance of bonds or stocks in their traditional format has dropped as more securities are issued electronically.

While stock and bond collectors typically focus on old issuers, Kerstein says the subprime crisis and all the attention it has gotten has prompted inquiries about scrip from mortgage lenders that have gone bust.

“I wish I had stock of companies involved in subprime, but they don’t have them.”

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