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Executive Search & Board Advisory

## J.P. MORGAN

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*"If you have to ask how much it cost, you can't afford it"*

J.P. Morgan

### Who was J.P. Morgan?

John Pierpont Morgan was born 17 April 1837 in Hartford Connecticut to Junius Spencer Morgan and Sarah Pierpont. Morgan came from a well-off family, his father owned part of a large mercantile house in Hartford which advanced to a larger one in Boston, and he later became Partner, then successor to the wealthy George Peabody – American Financier and Philanthropist. Morgan received his formal education in Hartford, Boston, Vevey Switzerland and the University of Gottingen. As a teenager, Morgan became seriously ill and suffered seizures, resulting in him spending long periods of time at home. This is when his fascination with the arts began.

At the age of 20, Morgan began his career as a clerk in Duncan. Two years later while studying sugar and cotton markets in the Caribbean, he bought a cargo of unwanted coffee and put the draft in the company's name without authorisation from his employers. They complained at first, but happily accepted the profits when the coffee was wholesaled in New Orleans.

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In 1860, Morgan set up his own company. He had plenty of business from his father in London and took advantage of opportunities to buy and sell in the booming city of New York. In 1861, he married Amelia Sturges, who was in the advanced stages of tuberculosis. At this point, Morgan gave up all commercial activities and took his stricken bride to Algiers and then Nice, hoping to find a cure. In 1862 he returned to the United States a widower. Morgan then formed a partnership with his cousin Jim Goodwin and called the firm J.P. Morgan and Company, Bankers.

During the partnership it was claimed that Morgan selfishly pursued profit during the Civil War, trading gold against the Governments fluctuating greenbacks. On one occasion, he bought obsolete arms from the Federal Government in the East and then sold them to General John C. Fermont in the West for an enormous profit. Morgan never apologised for his actions, but it is argued that two other men arranged the arms affair, and that Morgan was only involved as their banker.

In September 1864, he took on new partners and named the company Dabney, Morgan and Company. At 27, he was a financial leader in the largest U.S. city. He also launched his career in philanthropy, helping to raise money for the wounded and widowed, and established the Young Men's Christian Association (YMCA).

In 1865, he married Frances Tracy, one of the six daughters to attorney Charles Tracy. The Tracy's were fellow communicants of St. George's Episcopal Church in Bowery, which Morgan joined in 1861 and attended for the remainder of his life. Frances and Morgan had four children Louisa, Juliet, Anne and Jack. Jack took over his father's business many years later.

In 1879, his career took a leap forward when William Vanderbilt approached him about the sale of 250,000 shares of stock in the New York Central Railroad. Morgan pulled off the transaction without driving down the share price, and in return, secured a seat on the New York Central Board of Directors. The following year, he fronted a syndicate that sold \$40m in bonds to finance the Northern Pacific Railroad, the largest transaction of railroad bonds in U.S. history.

In 1885, Morgan arranged a meeting with the feuding Directors of the New York Central and Pennsylvania Railroad aboard his yacht, the Corsair. As they sailed up and down the Hudson River, Morgan made it clear that the yacht would not return to port until they reached a compromise that fostered suitable competition. The executives eventually agreed to the terms.

After the death of his father in 1890, Morgan's career and life took another turn. He arranged the merger of Edison General Electric and Thomson-Houston Company to form General Electric in 1892. He also continued expanding his already impressive collection of valuable works.

Morgan's power truly came to light in the Panic of 1893 when the U.S. gold reserves became seriously depleted. Morgan formed a syndicate of international investors willing to supply gold in exchange for a favourable rate on 30-year bonds. He then reassured a sceptical

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President, Grover Cleveland by citing an 1862 statute that gave the Secretary of the Treasury the power to pull off such a transaction without congressional approval. In early 1895, the syndicate bought and quickly resold the bonds, stabilising the shaky economy.

Morgan's firm, which is now J.P. Morgan & Co became a major player in the steel industry by financing the formation of Federal Steel in 1898. Three years later, after purchasing Andrew Carnegie's steel company for nearly \$500m, Morgan merged the entities into U.S. Steel, which created the first billion-dollar corporation.

In 1907, Morgan was again called to aid the U.S. Government in the grips of an economic panic. Seeking to stabilise a series of collapsing trust banks, he called several bank Presidents to his Manhattan library, and, similar to what he did previously in his Corsair meeting of 1885, locked the door until a solution could be reached. Morgan ended the stalemate by drawing up a bailout contract and ordering the exhausted Presidents to sign.

In 1913, Morgan set sail travelling on an overseas voyage. At this point his health steadily declined, and he died in Rome, Italy, on March 31, 1913. To commemorate his passing, the New York Stock Exchange remained closed until noon on the day of his funeral.

J.P. Morgan transformed the finance industry and left behind a powerful legacy. His name lives on into the 21<sup>st</sup> century through JPMorgan Chase & Co, which was formed as a result of mergers of several large U.S. banking companies including Bank One and Chase Manhattan Bank. He bailed out the U.S. Treasury not once but twice, spurring the creation of the Federal Reserve System.

***“No problem can be solved until it is reduced to some simple form. The changing of a vague difficulty into a specific, concrete form is a very essential element in thinking”.***

J.P. Morgan was well known for problem solving in difficult situations. Famous examples include the meeting between feuding railroad Directors in 1885, and when he assisted the U.S. Government in 1907. In both situations, Morgan simplified the issues and forced the parties to come to an agreement.

***“Go as far as you can see; when you get there, you'll be able to see farther”.***

J.P. Morgan's power grew due to an unusual combination of boldness and good sense, ruthlessness and responsibility, which made up his complex personality. The failure of the American people, between 1836 and 1913, to have any sort of central bank created rare opportunities for investment bankers with strong connections to foreign centres of capital. Despising waste, inefficiency, and conflict, Morgan used his growing financial power to impose order on the railroad and steel industries, reducing competition. Democrats also feared the growing power of rich men who appeared responsible to no one but themselves. Thus, Morgan stirred up controversy and antagonism; yet, at his death in 1913, he left a legacy of responsibility in business and civic affairs and a priceless collection of art for the enjoyment of millions.

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