

AN EIGHTEENTH CENTURY ATTORNEY'S FINANCIAL ADVICE TO HIS CLIENT:

A NOTE ON THE CORRESPONDENCE OF JOSEPH NEWTON TO
MRS. DOROTHEA GIBBON, 1773-1779

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PART of the traditional plight of the widow is the management of the real and financial assets that fall into her control. Often the successful management of her assets depends upon the calibre of the financial advice which she obtains from friends or counselors, and it would seem reasonable to believe that such dependence would have been generally greater in the 18th century than in the 20th. One such episode is illustrated in the correspondence of Joseph Newton to Mrs. Dorothea Gibbon, the second wife of Edward Gibbon (the elder) and stepmother of Edward Gibbon, the author of *The Decline and Fall of the Roman Empire*. The letters written by Joseph Newton, Mrs. Gibbon's attorney, shed some light on the type of financial advice given the widow of the 1770's. Specifically they deal with the question as to whether Mrs. Gibbon should sell her holdings of New South Sea Annuities. These letters (thirty in all) are held in the Special Collections Department of the Rutgers University Library.

Whether financial advice is good or bad can be judged only with reference to the price trends of the assets in question. The ideal financial adviser would, of course, recommend the selling of assets just before prices fell, whereas the less clever adviser would fail to anticipate accurately price declines and his clients would consequently incur capital losses in asset values.

In order to appraise the advice given to Mrs. Gibbon on the sale of the New South Sea Annuities, the following table has been constructed to show the price trends of the annuities, 1770-1780. Both

high and low prices are recorded for each quarter of every year, and the spread between the high price and the low price for each quarter is a measure of price stability or instability during the quarter. The figures indicate that the price fluctuated widely in the second half of 1770 and the first quarter of 1771. The price remained stable from the second quarter of 1771 to the first quarter of 1776. And in the second quarter of 1776 the price began to fall more or less steadily, dropping from 87 to 60 between 1776 and 1779-80.

PRICE OF NEW SOUTH SEA ANNUITIES, 1770-1780
(high and low prices for each quarter)

Year	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	High	Low	High	Low	High	Low	High	Low
1770	81 $\frac{7}{8}$	81 $\frac{7}{8}$	85 $\frac{7}{8}$	81 $\frac{7}{8}$	85 $\frac{7}{8}$	75	85 $\frac{7}{8}$	75
1771	90 $\frac{5}{8}$	80 $\frac{1}{4}$	86 $\frac{3}{4}$	86 $\frac{3}{4}$	87 $\frac{3}{8}$	85 $\frac{1}{4}$	85	85
1772	85 $\frac{7}{8}$	85 $\frac{1}{4}$	88 $\frac{1}{4}$	84 $\frac{5}{8}$	88 $\frac{1}{4}$	86 $\frac{1}{4}$	87 $\frac{7}{8}$	85 $\frac{1}{4}$
1773	86 $\frac{1}{2}$	84 $\frac{1}{2}$	84 $\frac{3}{4}$	82 $\frac{3}{4}$	84 $\frac{7}{8}$	84 $\frac{1}{8}$	85 $\frac{7}{8}$	84 $\frac{1}{4}$
1774	85 $\frac{1}{8}$	83 $\frac{3}{4}$	87 $\frac{1}{4}$	85 $\frac{1}{4}$	88	86 $\frac{1}{4}$	88 $\frac{5}{8}$	86 $\frac{1}{2}$
1775	88 $\frac{1}{2}$	83 $\frac{1}{4}$	87 $\frac{3}{4}$	83 $\frac{1}{4}$	87 $\frac{1}{2}$	84	87 $\frac{3}{4}$	86 $\frac{7}{8}$
1776	87 $\frac{3}{4}$	84	87	81	81 $\frac{3}{4}$	81	81 $\frac{7}{8}$	80
1777	81 $\frac{7}{8}$	77	78 $\frac{7}{8}$	77	78 $\frac{7}{8}$	73	77 $\frac{1}{4}$	73 $\frac{3}{8}$
1778	69 $\frac{7}{8}$	59 $\frac{1}{2}$	62 $\frac{5}{8}$	60 $\frac{1}{8}$	64 $\frac{1}{2}$	61 $\frac{3}{8}$	66 $\frac{1}{4}$	60 $\frac{1}{2}$
1779	62	59 $\frac{1}{4}$	64 $\frac{1}{8}$	60 $\frac{1}{2}$	61 $\frac{1}{2}$	59 $\frac{1}{2}$	61 $\frac{7}{8}$	60 $\frac{3}{8}$
1780	60 $\frac{3}{4}$	59 $\frac{5}{8}$	60 $\frac{1}{4}$	59 $\frac{1}{8}$	59 $\frac{3}{4}$	59 $\frac{1}{4}$	59 $\frac{5}{8}$	58 $\frac{1}{4}$

SOURCE: Observations for the years 1770-73 and 1775-80 are taken from *London Magazine* for those years; observations for 1774 are taken from *Gentleman's Magazine* for that year.

The correspondence begins April 14, 1773. At this point, Mr. Newton writes that ". . . as to the most proper time to sell, that is impossible to determine." But he quickly adds, "However, such directions as you shall please to give shall be immediately pursued." Two weeks later (May 1, 1773), Mr. Newton writes:

I have been daily consulting my broker who says that stocks are rising and thinks they will still be higher, so I have not sold any, notwithstanding which, if you have occasion for money, you will please to draw on me and favor me with advice of your draft. It shall be duly honored and I will do my utmost for your service in respect to your stock.

A check of the actual price trend reveals that the price of New South Sea Annuities did decline between the first and second quarters of 1773. However, the decline is not marked. It would seem at this

juncture that Mr. Newton is quite conservative and is especially reluctant to see his client suffer a capital loss. Mrs. Gibbon's continued interest in selling the annuities apparently prompts her to press for information on market trends. Mr. Newton replies (June 20, 1773) that there are: "No tidings from the West Indies. As soon as there are any [I] will let you know." In the same letter he offers another reason why he has not sold the annuities:

I have not yet sold your South Sea Annuities, thinking it more for your advantage to stay till the Midsummer dividend is paid.

Again in the autumn of 1773, Mrs. Gibbon questions whether it would be advisable to sell. Her reply from her attorney recommends that she hold. Mr. Newton writes (December 11, 1773):

As the South Sea Annuities have not yet got up to the price Mr. Scott bought them at, I have not sold yours pursuant to the power you sent me, therefore there is a balance of L 472 in my favor. Any consideration for advancing the several sums in the account is left entirely to you.

The attorney's reluctance to permit a capital loss is now quite apparent. Observe, however, that the price of the annuities in the last quarter of 1773 has recovered to its normal level for the years 1770-72. The conservative concern showed by Mr. Newton wins the approval of his client, as is indicated in the attorney's letter of January 7, 1774:

I am very happy to find that my conduct in regard to your money in the stocks has met with your approbation. I have endeavoured to do the best for your service and as you expect soon to receive a sum of money that seems to be the properest method to repay me. In the meantime, I cannot think of more than five percent [interest on Mrs. Gibbon's unpaid balance], and indeed shall be satisfied with what is most agreeable to you.

The question of selling the annuities drops from the scene for the next year and a half. In his letter of June 6, 1775, Mr. Newton states his willingness to sell the annuities but cautions against needless churning of his client's portfolio:

I will at any time send you a letter of attorney to empower me to sell the annuities and shall be happy to execute your command whenever you shall order me & the more so if it should turn out to your advantage, but this is all a chance. I don't think that you will gain by selling your annuities and

buying [government] 4's and there is a certain loss of a quarter percent paid to the broker for the selling and buying. I should therefore advise selling part of your annuities when you have occasion rather than make the exchange.

This is the first mention of selling the annuities when Mrs. Gibbon "has occasion," i.e. when she needs the money. The next letter of the Newton correspondence reveals the attorney's unwillingness to recommended selling:

I am sorry it is not in my power to advise you in regard to selling any of your stocks. Affairs seem at present in such an uncertain state that it is impossible to judge which will be best. Whatever directions you may think proper to give shall be pursued.

At the time he wrote the above (November 7, 1775), the price of the annuities had been relatively stable for two and one half years. That he is aware of the price of the annuities is made clear the following week (November 11, 1775):

I have consulted my broker who thinks that the stocks are at present high and says he does not see any reason for a material variation in them, but it is impossible to judge with any degree of certainty. I wish it were in my power to advise for your benefit. I would do it with great pleasure.

Once again the burden of taking responsibility for a decision to sell apparently prompts Mrs. Gibbon to postpone the matter indefinitely. No mention is made of the annuities in Mr. Newton's letters to Mrs. Gibbon during the period, November 11, 1775 and March 19, 1778. During this period the outbreak of war in the American Colonies had increased the demand for funds in the British money market. Securities which paid low yields were sold as investors altered the composition of their portfolios. As a consequence of this and the disruption of international markets, the price of New South Sea Annuities fell. As can be noted from the Table, the price dropped from 87 in 1776 to 60 in 1779-80. The firmness of Mr. Newton's letter of March 19, 1778, reflects the mood of a man hard-pressed for funds. This letter reveals that the attorney wishes the widow to repay her outstanding debt and gives the first indication of pressure upon the widow to sell her annuities:

When I had the pleasure of seeing you in town, you informed me that you expected soon to receive a sum of money which induced me to advise you

not to sell your stocks as you would have occasion to buy in again possibly at a disadvantage, but I imagined you had no apprehensions that the money would not have been paid you before this time, nor could it have been foreseen that the stocks and affairs in general would have been in the state they are now, but I am in great hopes they will soon mend.

No mention is made about the capital loss of the widow. Such omission contrasts sharply with the attorney's comments in earlier years. Mrs. Gibbon's indebtedness of £800 to Mr. Newton is mentioned (June 13, 1778) and it is very possible that the tight money situation is pushing Mr. Newton to call his loans. For the first time in the correspondence Mrs. Gibbon's conservative financial adviser makes a prediction about future price trends—namely that the price of the New South Sea Annuities will remain low. He writes (June 13, 1778):

Stocks are indeed very low at present, but affairs are in a very precarious state in respect to our colonies, and even if they were amiably settled the expenses already incurred are so great and there is such a scarcity of money, that I am afraid that the funds will continue to be low. I shall agreeable to your directions herewith enclose a Letter of Attorney to empower me to sell all or any part of your 2000 New S. S. Annuities.

The correspondence ends with a letter dated April 7, 1779, informing Mrs. Gibbon that the sale of 1000 New South Sea Annuities produced £616. Had Mrs. Gibbon been sufficiently bold to order sale of the annuities in 1773 or in 1775—or any year before mid-1776—she would have netted approximately £870. The capital loss suffered by the widow was therefore about £254. There is no information on how Mrs. Gibbon reacted to the loss. Perhaps she blamed the American Revolution for her misfortune.