people of modest means can achieve diversification by buying shares in investment trusts and similar institutions, but they have to pay rather heavily for the management skills thus bought. The yields on investment trusts are consequently quite low, often still lower than those on the bluest of the blue chips.[10] Unless the investor is prepared to pay this price for management, he will have to familiarize himself with the merits of a large number of individual companies. On the average investors will probably do very well, but the risk of choosing a bad company remains.

The bond market situation is also unsatisfactory in this respect. The heavy participation by financial institutions, especially banks, means that the determination of bond prices reflects considerations which are not of much importance to most individual investors. It may be admitted that insurance companies, another important category of bondholders, ideally reflect only the preferences of their policyholders; on the other hand the long-term nature of many insurance contracts, and the strict legal regulations to which the industry is subject preclude a very close adjustment of the insurance companies' policies to the needs of their customers.

### INSURANCE POLICIES LINKED TO SHARE PRICES

In this connection it might be useful to comment briefly on the plans now materializing to issue insurance policies whose proceeds are linked to the value of a portfolio of selected stocks. One such scheme was started some years ago by the Teachers Insurance and Annuity Association, while a major life insurance company was recently authorized to go ahead with similar plans. The TIAA plan has met favorable response among its special public, and it seems likely that the newer and more general proposal will also find wide acceptance. Despite opposition within the insurance industry, similar plans will presumably be introduced by other companies. If these plans are, in fact, successful, they will offset a trend that has caused considerable anxiety to the industry, namely the shift away from equity-building insurance (such as endowment policies) toward term insurance.[11] Although an exact evaluation of this movement is made difficult by the simultaneous shift from individual to group policies, it would seem that fear of inflation has been a major cause of the decline of traditional insurance.

Those who devised the new insurance schemes deserve credit for understanding the signs of the times; nevertheless, it must be doubted whether this solution will be satisfactory in the long run. So far stock prices have risen much more than prices in general, but this hardly suggests that they will continue to do so. On the contrary, if my diagnosis is correct, the rise in stock prices, though partly based on real factors and not merely on fear of inflation, has brought equities

[10] Of 24 investment funds for which the price on Dec. 31, 1958 was related to dividends paid in 1958 the yield was less than 2 percent in 6 cases, from 2 to 3 percent in 10 cases, from 3 to 4 percent in 7 cases, and over 4 percent in one case. Many of these funds also pay out capital gains from time to time.

[11] From data in the "Life Insurance Fact Book 1959," it can be estimated that of the total life insurance in force in the United States 45 percent was term insurance in 1957, against only 30 percent in 1950. If group and credit insurance are left out of account the percentage of term policies in the remainder (ordinary and industrial) rose from 11 percent in 1950 to 17 percent in 1957.