

In the SEC report, at the hearings before the Senate Committee on Banking and Currency, and again before this committee, the SEC has reiterated a cliché which it has propounded before—namely, that contractual plans are an unimportant vehicle for the purchase of mutual funds because in California, which does not permit the sale of contractual plans, more mutual fund shares are sold per capita than in any other State. The latter fact is undoubtedly true; however, the conclusion which the SEC seeks to draw from it is not.

The contractual plan is worthwhile because it is the only effective way by which mutual fund shares can be offered to investors of modest means who have not yet accumulated equity capital to date. In the absence of this plan, such persons are simply not given the opportunity to invest in equities, and that must be true of many thousands of Californians.

The citizens of California are avid purchasers of mutual funds. The reasons are understandable. We know, for instance, that the population in California includes a much larger percentage of persons who are either retired or otherwise have accumulated substantial amounts of capital which they are prepared to invest and need not rely upon current income for their investment capital. The manager of the California region of Mr. Roach's company, Waddell & Reed, Inc., a large mutual fund organization which also acts as a sponsor of contractual plans, estimates that approximately 75 percent of the mutual fund shares sold under his jurisdiction in that State are sold to retired people. Then, too, we know that the mutual fund idea in general has been much more widely accepted for a longer period by California securities dealers and salesmen than by those in almost any other State of the country—notably in some parts of the East where many large investment houses delayed, and in some cases still delay for years in perceiving the advantages of mutual fund investment for their customers. In addition, there is one mutual fund, Insurance Securities, Inc., in California which accounts for a substantial volume of mutual fund sales in that State, but in a very special form of sales medium. Finally, I understand from reliable sources that because of the closing of the Eastern securities markets in California—this would be at 12:30 because of the fact that the New York Stock Exchange closes at 3:30—salesmen have a much larger part of their active day to devote to the mutual fund shares than in most other time zones.

As a final comment on the SEC California argument, I would like to give you some statistics which the SEC fails to provide in conjunction with the California statistics. During 1966, sales of mutual funds on a per capita basis in Illinois, Wisconsin, and Ohio—the only other States in which contractual plans could not be sold—were significantly below the national average of \$23.08 per capita. In Illinois, they were \$18.23; in Wisconsin, \$16.59; and in Ohio, which incidentally now permits the sale of contractual plans, only \$15.17. These figures, I think, show that no conclusions at all with respect to contractual plans can be drawn from the California experience, except that their prohibition was not the cause of the results which the SEC describes.

Another basis upon which the SEC seeks to persuade the Congress to abolish the front-end load is that contractual plans are sold to uneducated or disadvantaged segments of the population who are par-