

Mr. STUCKEY. Let me ask you this then. Do you have any idea of the percentage of contractual plan sales, and there again we are going back to your high-pressure selling, do you have any idea of the percentage of contractual plan sales that result directly from recommendations by say satisfied planholders?

Mr. KOSTMAYER. Yes, sir; I think I can give you pretty general figures based on my own company.

Mr. STUCKEY. In other words, this is getting out of the pressure selling. This is just purely from recommendations.

Mr. KOSTMAYER. Right.

Mr. STUCKEY. From those who are satisfied.

Mr. KOSTMAYER. I would say that people who either buy because they are buying a second time or buy because they have been—a salesman has been recommended by someone who already owns the plan constitute three-quarters of all of our volume. Does that respond to your question?

Mr. STUCKEY. Yes.

Mr. MOSS. Mr. Roach, among other items which the Securities and Exchange Commission has raised is the question of the use of brokerage and portfolio transactions to provide an extra commission for dealers who distribute investment company stock. This, as you know, is described as a give-up. It is my understanding that your members have your own sales organization so that this practice is not present. I also understand that some of your members, and I think you yourself are members of the Pacific Coast Stock Exchange.

Mr. ROACH. That is correct, sir.

Mr. MOSS. Just how do you treat the brokerage or commission on portfolio transactions? Does it accrue to the advantage of the fund?

Mr. ROACH. Under the investment advisory agreement between United Funds, Inc., and Waddell & Reed, Inc., the compensation otherwise payable by United Funds, Inc., to Waddell & Reed, Inc., is reduced by an amount related to the "net income" of Kansas City Securities Corp. Kansas City Securities Corp. is a subsidiary of Waddell & Reed, Inc., and is a member firm of the Pacific Coast Stock Exchange through which a portion of the portfolio transactions on behalf of United Funds, Inc., and others are executed on that exchange.

For the purpose of the agreement the net income of Kansas City Securities Corp. is determined in accordance with generally accepted accounting principles except that in such determination there is subtracted provision for Federal income taxes as if Kansas City Securities Corp. were to file a separate Federal income tax return, whether or not Kansas City Securities Corp. has filed or is to file such a separate return.

The total amount of management fees payable by United Funds, Inc., to Waddell & Reed, Inc., for each month is reduced on an annual basis by an amount equal to the higher of (A) 100 percent of the net income of Kansas City Securities Corp., resulting from commissions and discounts on portfolio transactions executed by Kansas City Securities Corp., for United Funds, Inc., since the beginning of the then current fiscal year of Kansas City Securities Corp., or (B) 50 percent of the net income of Kansas City Securities Corp., from all sources since the beginning of its then current fiscal year. In computing (A) above, the expenses of Kansas City Securities Corp., for the periods in question are allocated in the same ratio as commissions and dis-