

In January of 1965, when we first began managing it, the Security Equity Fund had net assets of \$400,000 and today, 3 years later, it has net assets of \$60 million. The growth of this fund results from both increased sales and performance. The shares of the fund are solely marketed by independent broker-dealers who, based upon our performance, have decided to sell our shares.

Mr. Chairman, in the interest of conserving the committee's time, I would like to request that my statement be made a part of the record of this hearing and that I be permitted briefly to summarize my position.

Mr. Moss. If there is no objection, the statement will be included in the record at this point and we will be pleased to hear your summary.

Is there objection? Hearing none, the statement is accepted for the record.

Mr. ALGER. Thank you.

(Mr. Alger's prepared statement follows:)

STATEMENT OF FRED M. ALGER, PRESIDENT, FRED ALGER & CO., INC.

Mr. Chairman, members of the subcommittee, I am Fred M. Alger, President of Fred Alger & Company, Inc., a non-registered institutional investment adviser. Thank you for granting me the honor and privilege of this opportunity to appear before you to express my thoughts on the proposed amendments to the Investment Act of 1940 and the Investment Advisers' Act of 1940, numbered HR-9510 and HR-9511.

My company renders investment advice to corporations and individuals. One of our clients is Security Management Company, Inc., a Kansas-based management company which manages two funds, the Security Equity Fund, Inc., and the Security Investment Fund, Inc. Both funds are corporations registered as open-end investment companies pursuant to the Investment Act of 1940.

Since we began advising the Security Management Company in January of 1965, the Security Equity Fund, which is a growth fund, has had the best average growth performance of all mutual funds in the United States. In January of 1965, when we first began managing it, the Security Equity Fund had net assets of \$400,000 and today, three years later, it has net assets of \$60 million. The growth of this fund results from both increased sales and performance. The shares of the fund are solely marketed by independent broker-dealers who, based upon our performance, have decided to sell our shares.

I wish to address myself to Sections 8, 12 and 25 of HR-9510. First I will address myself to Section 12 of the Bill, which is the proposal to limit the sales charge on the sale of mutual fund securities to 5%.

This reduction in the sales charge, in our opinion, would virtually put all independent broker-dealers out of business. It would render it impossible for Security Equity Fund to successfully market its shares. It will do so because it will reduce the commissions paid to the independent broker-dealers to a level where they can no longer afford to sell our shares.

The present average sales charge on the sale of a mutual fund share is 8.5%. This 8.5% charge is normally divided as follows: 2% goes to the underwriter for printing and distribution costs, but the SEC has conceded that, even at this rate, underwriters generally lose money on the distribution of shares. Another 2% goes to the independent broker-dealer who maintains an office and place of business out of which his salesmen operate. The SEC did not evaluate the costs of the independent broker-dealers, but from my conversations with numerous representatives of broker-dealers I can state that their profit is generally marginal. The remaining 4.5% goes to the salesman who actually sells the mutual fund share. Mr. Robert M. Gardner, former president pro-tem of the NASD, pointed out at the Senate hearings on this same subject that, based on the present rate of commission, four out of five salesmen average less than \$10,000 income per year. It is apparent that the cost of the underwriter in distributing the shares, and the cost of the broker-dealer will necessarily remain relatively constant. Therefore, if you allow the sales charge load to be reduced to a maximum limit of 5%, there will be less than 1.5% available to pay the salesman for his efforts, certainly not enough for him to remain in business.