

I am frequently called upon to speak with the representatives of independent broker-dealers. They have all told me that if the sales charge is reduced to 5%, they will not be able to sell the shares of either Security Equity Fund, Inc., or other small or medium-sized funds, but will be forced to go out of business or seek employment as part of the captive sales force of one of the few very large mutual funds that may survive with a 5% sales charge. Thus, a reduction in the sales charge will immediately cause a reduction in the number of independent broker-dealers available to sell the securities of small and medium-sized aggressively managed funds, such as Security Equity Fund.

The independent broker-dealer is just what the name implies. He may, based upon the wants of his clients and the performance of the various funds, choose, with relative freedom, the funds which he wishes to sell. Generally, there are three types of mutual funds offered: A growth fund, such as Security Equity, which has, as its primary objective, capital gains; an income fund, which has as its primary objective the production of income, and a balanced fund, which strikes a balance between the production of income and capital gains.

A mutual fund is one of the few products which can prove its superiority statistically. There are several surveys which show which funds in each category have the best 1, 3, 5 or 10-year record. Therefore, the independent broker-dealer by referring to these services, can readily determine which are the best performing funds. It is obvious that the best performing funds are usually the easiest to sell. However, a salesman will not sell a fund, in spite of its performance record, if he is not adequately paid for his effort.

By reducing the sales charge to a 5% ceiling, you will bring about a reduction in the number of independent broker-dealers and a resultant lessening of competition within the mutual fund industry. The lessening of competition will occur because many aggressively managed and well-performing funds will go out of business because they can no longer afford the costs of marketing their shares.

As an example, in January of 1965, when we began to render financial advice to the management company of Security Equity Fund, Inc., it had net assets of only \$400,000, and was not able to afford its own sales force. Therefore, in order to market its securities it relied upon the services of independent broker-dealers. Today, three years later, the Security Equity Fund has capital assets in excess of \$60 million. The growth of Security Equity Fund resulted from, first, the willingness of the independent broker-dealers to sell our shares, and, second, the outstanding performance of the fund. The fund has had the cumulative average growth performance record in the mutual fund industry over the past three years. Security Equity has proved to be a superior product but this security could not have been offered for sale to the public if it had not been permitted to levy the 8.5% sales charge. If three years ago there had been a limit of 5% sales charge, there would be no Security Equity Fund, Inc., and the public would have been deprived of the opportunity to purchase the mutual fund that has had the cumulative average growth performance record in the United States over the past three years.

The only funds that the public would have had offered to them would have been those funds which were sufficiently large to afford the luxury of a captive sales force. The salesman who is a member of a captive sales force sells only one product. The salesman will sell that product without regard for its performance. There is no incentive to this salesman to review the statistical records of various mutual funds and, based upon their respective investment goals, i.e., growth, balance, or income, sell that fund which has the best performance record. He is just what the name implies—a captive—and, as a captive, he is going to present only one point of view. This is not in the best interest of the purchasing public. The independent broker-dealer prefers to sell that product which has the best performance record.

It is the independent broker-dealer who rewards competitive investment performance by exposing the public to a better product. The incentive is a natural one. A better product is easier to sell and results in a satisfied customer. A salesman who is a member of a captive sales force sells only one product and you can be certain that if his is not the best product, he will not bring that to the attention of the potential buyer.

If you reduce the sales charge load to 5%, you will put the independent broker-dealer out of business and thereby eliminate small, aggressively managed mutual funds.