

to the individual investor. The Acts provide for full disclosure by the mutual fund company. A mutual fund company produces a product—its shares—and offers them for sale to the public. The public purchases the shares for one of three purposes—growth, income, or a balance between growth and income. The SEC has refused to accept that a mutual fund share is a product, because it says if it did so its entire report is without meaning. To quote the SEC: "Some . . . suggest that any conflicts that may exist between the interest of the fund managers and underwriters and those of their customers—the mutual fund investors—are no different from the usual conflicts of interest between buyers and sellers . . . (that) the fund . . . has little . . . independent significance for it is essentially the brand name under which a particular investment advisor sells its services to the public . . . If this view were accepted, the questions raised . . . by the special study . . . might be of little significance. The Commission believes it would be most unwise to accept the foregoing analysis for regulatory purposes." (Pages 75 and 76 of their Report).

I believe that a mutual fund share is a product which is offered for sale by a mutual fund company in a highly competitive market. The buyer has the opportunity to select from a large number of products. The full disclosure provisions of present legislation more than adequately protect the prospective buyer. In addition, the NASD with Congressional approval, presently regulates the marketing practices of mutual funds, underwriters, independent broker-dealers and their salesmen. I believe that the NASD and the industry should be permitted to develop new marketing practices and self-regulation. We have just submitted a new concept for marketing mutual funds securities to the NASD. We believe our proposals will be highly beneficial to the customer, broker, salesman and underwriter. Because our plan will provide security and other benefits to the salesman and the broker-dealer, it will ultimately permit the reduction of the sales charge from 8.5% to 6.5%. This plan is non-exclusive and because of the benefits to all concerned, we believe it will ultimately be copied throughout the industry.

I believe industry and the NASD should be free from legislative restrictions on price and cost schedules to implement new innovations within the industry when and if they become feasible.

Thank you, Mr. Chairman. This concludes my prepared remarks and I would be glad to answer any questions that you or the Committee members may wish to ask.

RÉSUMÉ OF FRED M. ALGER

Fred M. Alger, born Detroit, Michigan, 1934. Bachelor of Arts Degree, Yale University (June 1956), Master of Business Administration Degree, University of Michigan (June 1958). 1957 and 1958 Security Analyst at First of Michigan Corporation; 1958-1959 Security Analyst at Wells Fargo Bank; 1960-1961 Security Analyst at North American Securities Company; 1961-1964 Portfolio Manager at Winfield & Co., Inc.; 1964 Founder and President of Fred Alger & Company and Falco Associates. Fred Alger is on the Board of Fred Alger & Company, Inc., Falco Associates, Inc., W. A. Benjamin, Inc., Publishers, H. C. Bohack & Co., Inc., a New York Grocery Chain, and Security Investment Fund.

Fred Alger & Company was retained as Research Consultant to Security Management Company on January 1, 1965. At that time, Security Management Company was the investment adviser to the Security Equity Fund, a growth Fund, with assets of \$400 thousand, and Security Investment Fund, a balanced income fund of \$8 million. Since that date Security Equity Fund has had the industry's best investment results recording a gain of 200%, ten times that of the Dow Jones Industrial Average, and has grown in size to over \$60 million. The Security Investment Fund, during the same time period, has had the best cumulative investment record of balanced funds concentrating on income and has grown to \$11.5 million.

Mr. Alger's firms, Fred Alger & Company, Inc., and Falco Associates, Inc., also run the portfolios of several large clients, including a large segment of the FOF Proprietary Funds, Ltd., which is wholly owned by The Fund of Funds, Ltd.

Mr. ALGER. First, mutual funds fall into three product categories: Growth funds, income funds, and balanced funds. A mutual fund share