

the risk factor. The risk factor can best be measured by the spread over which the securities fluctuate. The wider the fluctuation, the wider the risk. It appears that the rapidly moving stocks are the wide risk, wide fluctuation stocks. It is therefore quite possible to put together a fast moving portfolio. If the risks do not have the consequences they might, this portfolio will do better than a lower risk portfolio. That is the simple consequence of the fact that investors dislike risk. They put a premium on safe stocks and they put a discount on high risk stocks. If one is willing to accept risks, one can buy fast growth high return stocks, and do well so long as nothing happens.

Mr. Moss. Professor Wallich, would you prefer to complete your summary in advance of questioning or would you like to discuss as you move along?

Mr. WALLICH. I would be perfectly happy to do the latter, assuming that after we have taken say one-third of the time on this topic, if that is your pleasure, we could go on to the next, because I have basically three broad topics to talk about.

Mr. Moss. You may proceed.

Mr. WALLICH. It wasn't stated on the record.

Mr. Moss. Also in introducing Profesor Wallich I wanted to say I believe you were a member of the Council of Economic Advisers to former President Eisenhower.

Mr. WALLICH. That is right, Mr. Chairman.

Mr. Moss. Thank you.

Mr. WALLICH. Congressman Keith, do you wish to pause at this point?

Mr. Moss. You proceed with your summary.

Mr. WALLICH. Very good. The upshot from these considerations is the following: The statistical evidence shows that by and large random portfolios, blindly picked portfolios, do as well as expertly picked. There are some exceptions which do not prove or disprove the rule. The overall evidence still stands. The conclusion is that on average and in general investment advisory fees are unjustified, because investment advice is worth zero.

Now that doesn't mean that particular funds haven't done well, haven't done better than the average, or that particular funds haven't done well in particular years. I am speaking of a long-term broad average, the kind of experience that an investor would have if he invested over 20 or 30 years. He would on average be as well off throwing darts as he would be attaching himself to the fortunes of a fund.

If that is true, then clearly the function of the funds is not to provide superior performance. It is simply to provide diversification of risk. That they can do with one man and a secretary. There is no need for an elaborate research staff.

If next I may turn to the subject of the sales load, there are two aspects to be considered. One is the ordinary load of 8.5 if expressed as a load, and 9.3 if expressed as a sales charge, and the front-end load. It is necessary first of all to point out that this is not a competitive industry. It is a monopolistic industry with the Government preventing competition at the retail level.

A salesman cannot come to me and say "My normal charge is 8.5 percent but I will let you have it for 2." He would be acting illegally.