

The present technique I think is perhaps excessively burdensome. There may be ways of improving it. This could be done through refunds, for instance, to people whose contracts lapse. It could be done by lowering the overall commission somewhat, say to 20 percent from 50, and having the underwriter make up to the salesman the risk.

It is clear that the salesman needs something like 50 percent to come to my door and spend an hour with me selling me \$500 worth of mutual funds. He can't afford to spend that time for less. He has got to be paid. He can't wait to be paid either until I have fulfilled the contract. But perhaps this payment to the salesman could be made up from other sources, principally, of course from the principal underwriter.

This leaves me with my last subject, which is speculative activity.

Mr. KEITH. You mean you are not going to get into the question of fiduciary relationship.

Mr. WALLICH. Congressman Keith, this is a difficult one for an economist. I have no legal background, and I think I might be straying out of my area of competence, if I have one.

The problem of speculative activity: In the last few years we have had the appearance of the performance funds. They have unquestionably done better than the average. Even if we look at the variance of the stocks, they may for a given risk have done better. Furthermore, in declines they have not, like some of the stocks they held, gone down very far. For the most part, they have performed pretty well on declines too.

There is, therefore, the question whether the performance funds really are in accordance with the theory I have propounded before, that on average one cannot do better than the averages, allowing for risk, because all that is known has already been discounted by the existing price of the stock.

I would say this. The theory behind the statement that it is difficult to do better than the market is buttressed by a great deal of historical experience. It is buttressed also by some very obvious a priori thinking. If the performance funds defeat—

Mr. KEITH. What kind of thinking did you say?

Mr. WALLICH. A priori, in other words, theoretical reasoning.

Mr. KEITH. It sounds like a legalistic term.

Mr. WALLICH. It is.

Mr. KEITH. I didn't think you had the competency.

Mr. WALLICH. I stand corrected.

Mr. KEITH. What does it mean?

Mr. WALLICH. It means preceding from something prior; that is, in advance of evidence, or reasoning from prior general principles. However, in this particular case the evidence supports the a priori reasoning. And the evidence is heavy. It is not casual, of the kind that the industry has produced. That is what one would call casual evidence.

If one believes the evidence and the theoretical reasoning, one arrives at the conclusion that the performance funds are generating their own successes. That is to say, they influence the market, and that is why they do better. I have not really studied the detailed evidence on this, but two facts may be cited: (1) activity in the market has greatly stepped up since the performance funds made their mass experience; (2) high-priced stocks have begun to jump about in a