

and that perhaps legislation should be enacted that would encourage the establishment of internally managed funds as contrasted to those with management companies?

Mr. WALLICH. I think that internal management makes a lot of sense. It is in keeping with the way other businesses are run, and it is likely to make for better terms for the investor, because then the interest of the management is in doing something for the fund rather than doing something for the management company.

Mr. KEITH. Going to the subject of speculation, you mentioned performance funds. We have had considerable discussion here with reference to these funds. Do you have any evidence that in anticipation of declines in the market that they get into a much more liquid position in a hurry?

Mr. WALLICH. I haven't examined this evidence, but I believe it must be so, because the performance funds have not declined much during periods of decline, when some of the stocks that they typically held, like Xerox and IBM were virtually cut in half. So they must have somehow succeeded in getting out. That is a compliment to their ability, but the reason why some stocks went down so much is, of course, in part that selling by funds occurred.

Mr. KEITH. Have you taken any steps, as one who is knowledgeable in this area, to encourage either the exchanges or the mutual fund industry or the Congress other than your appearance here, to study the possible existence of activities that are adverse to the market's and to the buyers' interests, such as the point you just mentioned about waiting to place an order in the last 10 minutes of the day? Are there other techniques where full disclosure would perhaps inhibit and perhaps help the exchange in the regulation of its own operations?

Mr. WALLICH. I have not studied this sufficiently to feel very sure. These are preliminary impressions, and I feel quite hesitant about suggesting that anything should be prohibited. It may be that the placing of heavy orders at the end of the day has already had a damper put on it. But speculation as such is not a bad thing when it does not become destabilizing. I would go slow on controlling speculation. I would hate to think of controls being employed as they are in the commodity markets, with maximum price movements during a day, for instance, or suspension of trading in some particular issue.

These are interferences with the free market that one goes to as a last resort, to combat very great evils. Very often they have side effects, such as creation of black markets, that frustrate the intention.

If I had any suggestion in this area what to look at, without recommending it firmly, it would be to do something via the tax route. For quick in-and-out trading funds would be deprived of the conduit privilege. It is not a very great privilege that they have, of not paying income tax on their dividend receipts if they pay out 90 percent. If you withdrew that privilege, the so-called conduit arrangement, then funds would only pay tax on 15 percent of intracorporate dividends. This would not be a very heavy burden anyway. A tax on their capital gains would be something else.

Another approach that would not directly interfere with the market would be to put some limitation on turnover and impose perhaps