

higher taxes if the turnover exceeded a certain percentage of portfolio. I feel quite hesitant about that kind of thing. I would want to know more facts first before coming out flatly for it.

Mr. KEITH. Would you think it advisable that the legislation we are considering have perhaps a title or a section authorizing a study of speculation? Is that important?

Mr. WALLICH. A study would be a good thing. I think it should not interfere with going ahead on the other points. But if the study was simply part of the legislation being passed, then assuming this study is competently done, it would be a useful one.

Mr. KEITH. I have no further questions at this time, Mr. Chairman. I would like perhaps to ask one more later on in the discussion.

Mr. MOSS. Mr. Watkins?

Mr. WATKINS. Mr. Chairman. Mr. Wallich, you stated that you OK mutual funds. You think that mutual funds are proper.

Mr. WALLICH. Yes, sir.

Mr. WATKINS. You say the mutual funds are proper. You approve the method. I note too that you are a professor at Yale University.

Mr. WALLICH. Yes; that is right, sir.

Mr. WATKINS. And that your approval goes so far that you are bringing in three mutual men, men that are employed in mutual funds to decide your investments.

Mr. WALLICH. Yes.

Mr. WATKINS. Now I am not interested, Mr. Wallich, in the big fellow, how he spends his money. He has plenty of advice, attorneys and professors, and a board of directors. I am interested in the small man who has the opportunity to purchase mutual funds.

You made a statement, if I understand you correctly, that 8.5, 9.3, or 5 percent—the way I understood you to say, that you could use any figure and get the balance that you would need from some other place. What do you mean by that? How are you in business if you only have a certain percentage to pay your salesmen and your cost of operation, your management and the various other costs of setting up this enterprise, this business? What other ways can you get it? You have got to operate at a profit.

Mr. WALLICH. In this complex of earnings that a management or advisory company has and the broker has, there are really three sources of earnings. One is the sales load, the second is the advisory fee, the third is the commissions that the broker gets.

To the extent that there is some personal relationship between the advisory group and the broker and the principal underwriter, and very often that is the case, although by no means always, this money in a sense all goes into the same pot, although not legally. That means——

Mr. WATKINS. You say not legally?

Mr. WALLICH. Not legally because the profits of the advisory company go into the corporate income, the profits of the brokerage firm whose partners may be officers and stockholders of the advisory company go to them directly and are taxed to them directly. When I said not legally, I didn't mean illegally, but that there is a different corporate setup.