

The exchange research indicated our industry must attract an additional \$85 for every \$100 of capital now employed in the business. To attract an additional \$1 billion in needed capital funds, we will have to maintain a level of profitability sufficient to induce such new capital to flow to it.

The present proposals do not accord sufficient weight to the economic consequences of the recommendations on the ability of the securities industry to meet its commitments to its present and prospective customers and to a growing national economy. To pare down profit margins, while causing costs of investor services to rise may well change the investment industry in ways that will be adverse to the public interest.

CONCLUSION

On the basis of the criteria set forth in this statement, the key proposals in H.R. 9510 and 9511, if adopted, would, in our view, result in less rather than more protection and in poorer rather than better service to the investor. The evidence at hand is inadequate for the establishment of guidelines which may well prevail for the next generation and have a serious impact upon an industry as dynamic and important to the national welfare as the mutual fund industry.

In summary, reduction in the profitability of investment firms could well result in:

1. A deterioration of services to the public, many of which are provided without charge;
2. Hampering the industry's ability to compete for qualified personnel and to train and supervise them adequately, in the interest of serving the public to best advantage;
3. Impairing the ability of firms to meet the increasing regulatory requirements designed to protect the investing public;
4. Inhibiting the flow of new capital into the business at a time of accelerating demand for additional investment services;
5. The inevitable consequences of making large firms larger and forcing smaller firms out of the business, thereby limiting the choice investors have in securing investment services.

I thank you, sir.

Mr. Moss. Thank you. Mr. Watkins.

Mr. WATKINS. Thank you, Mr. Chairman.

Mr. Davant, would you consider mutual funds a monopoly, or would you consider it a competitive business.

Mr. DAVANT. I consider it a very competitive business. There is a choice of buying any number of investment media, any number of mutual funds, either no load, load, closed end, open end. This is an area where there is complete disclosure of information. The investor has complete ability to move from one investment to another.

Mr. WATKINS. I thank the gentlemen.

I have no further questions, Mr. Chairman. The statement speaks for itself and I think it is a very fine statement.

Mr. DAVANT. Thank you, sir.

Mr. WATKINS. I appreciate having the opportunity of listening.

Mr. DAVANT. Thank you, sir.

Mr. Moss. Mr. Murphy.