

Mr. JENNINGS. Well, ISI, I don't think is responsible for the front-end load problem, but I think it is true. I never made a study of ISI, but it is my understanding that the biggest profit in ISI is on the sales side of the business. You know funds start from three sources: Brokers who want portfolio business may start a fund; investment advisers who are skilled in advising may form a fund; or an organization that has salesmen or wants to develop a sales force may form a fund, and I think—

Mr. KEITH. And a combination of all three.

Mr. JENNINGS. And combinations. And it is true as I understand it, though this is a matter that could be checked, that ISI depends more on sales commissions than otherwise. They have been very successful in one aspect. They developed a sales force of retired businessmen who had been rather successful themselves.

Mr. KEITH. What I would like to know for the record is whether or not these salesmen for a fund operating in the fashion ISI does have there extra compensation made available to them by reason of the relationship between the investment company and the fund itself? Do you know of any? Why the extraordinarily high income for the salesmen and why the success in California? Is there any knowledge that the committee might have that would enable us to look with favor on the techniques used in California as contrasted to the rest of the country?

Mr. MOSS. Will the gentleman yield?

Mr. KEITH. Surely.

Mr. MOSS. I stated earlier in the hearings that I intended to develop all pertinent facts on the selling of fund shares in California, and have those available for the committee. I am undertaking to do this study.

Mr. KEITH. I have no further questions, Mr. Chairman.

Mr. MOSS. Mr. Murphy.

Mr. MURPHY. Professor, I certainly enjoyed your testimony.

Mr. JENNINGS. Thank you, sir.

Mr. MURPHY. You stated that there was sufficient evidence in the Senate hearings to justify a cutback in sales charges from 9.3 percent down to 5 percent. Was there statistical evidence submitted or was this opinion evidence of the two professors that you had mentioned?

Mr. JENNINGS. Well, neither one presented statistical evidence. It was economic analysis of what might likely occur under this kind of a change in that you have imperfect competition today. They both felt that if there was competition introduced at the retail level, it would be a healthy situation, that probably we have too many part-time salesmen in this industry. You know one of the characteristics of this industry is that salesmen are recruited and they first sell their relatives and their friends, and they go on from there. Many of them drop out at that stage, and I only have a brief sampling myself, but from my own experience it is just curious the number of people who buy mutual funds because someone's brother that they know is selling mutual funds. And I think that mutual funds could be marketed in a much more efficient way.

Mr. KEITH. Cold canvass is a cold business.

Mr. JENNINGS. Yes.