

the interest of the investor, often a person unskilled in finance or economics.

This conflict is inherent in the stock and bond business. Wall Street manufactures securities for sale. A securities salesman has the job of persuading investors to buy the merchandise which is for sale. Yet, at the same time, he tries to advise investors on what is best for them.

Thus, he wears two hats—the hat of the salesman, anxious to earn a commission and the hat of the investment counselor, or adviser, duty-bound to help his client or customer. When the showdown comes, whom does he serve—his wife and kiddies, or the investor's wife and kiddies?

It is argued that full disclosure protects investors buying mutual funds. But what does full disclosure provide? It tells how much a particular fund charges. It does not mention alternative investments. It does not indicate that the investor can buy mutual funds without a sales load—with no commission whatever. It does not mention closed-end funds selling at a discount.

And if a salesman is asked about a no-load fund, he tends to parry the question, by saying: "Well, you know you get what you pay for in this world"; or, "Often no-load funds have a redemption fee instead of a sales fee"; or, "No-load funds have higher management fees and they have to be paid year after year."

These are not even half-truths. So there is not full disclosure orally. It is also argued that competition protects investors. But competition has worked the wrong way. Sales commissions have tended to increase over the years toward the highest level. Sales organizations early discovered that they fared best by raising commissions. The evidence on this is on page 208 of the SEC report to this committee, dated December 2, 1966.

This is human nature. The customer's man in a brokerage office or the independent salesman tends to push the stock or bond which yields him, the seller, the greatest return. The recent sale of dual-purpose funds in Wall Street suggests this. The commission was about the same as that on mutual funds. Many of these funds were oversubscribed—because of the intensive sales efforts.

But now the capital share of six out of seven of these funds are selling at discounts from their net asset value. In terms of real worth—getting assets for one's money—each is a better buy than a mutual fund. But Wall Street has lost interest in selling them. Salesmen have gone back to the greater return—mutual funds.

I think this was a point that Professor Jennings tried to indicate. The SEC proposals have been described as utility-type regulation. There is validity in this statement. The mutual fund industry, as it is constructed, is like a public utility.

The prices are fixed. The fund is protected against price cutting. There are no discount houses in mutual funds. If the funds are protected against unfair competition then the investors should be protected against overcharging.

To support these comments, I am including four recent articles I have written but which I won't read.

As I see it, the buyers of mutual funds, for the most part, are unsophisticated investors with limited savings. They turn to mutual funds because they want a diversified holding of securities, super-