

this Committee that there are about 90,000 people selling mutual funds. Since there are approximately 4,000,000 mutual fund shareholders, there is, by Mr. Roach's estimate, a mutual fund salesman for every 44 existing mutual fund shareholders. Even if one were to estimate that there are only 50,000 mutual fund salesmen, there would be a mutual fund salesman for every 80 mutual fund investors. So it is inevitable that many full-time salesmen find it very hard to earn a good livelihood solely from the sale of fund shares. When a salesman does manage to unearth somebody who could invest in a mutual fund, he often finds that one of the army of part-time salesmen or a full-time salesman from a large New York Stock Exchange firm has already made the sale. Hence the turnover rate among salesmen is very high.

In few other areas of the American economy does the labor force rotate at a comparable rate. New recruits who believe—or who are led to believe—that selling mutual funds is an open road to riches, or at least a dignified way in which to add a meaningful supplement to an income primarily derived from some other source, are offset by equal numbers of dropouts who have found that it isn't quite as easy to make money selling mutual funds as the recruiter said it was.

Just as it is relatively easy to become a mutual fund salesman, it is not difficult to become a mutual fund dealer. All it takes is \$2,500 which can be borrowed. Many salesmen, who tire of sharing what they produce with their employers, venture into business for themselves. But the same obstacles that the proprietors of these new mutual fund retailing firms faced as salesmen still confront them and their sales recruits. Hence the high entry rate among mutual fund dealers is counterbalanced by a high departure rate.

The essential question thus becomes whether federal law should continue to insulate mutual fund sales organizations, which have probably grown oversized and inefficient in terms of production, from both price competition and price regulation.

The Commission is not insensitive to the legitimate needs of the mutual fund salesman and of the small mutual fund dealer for compensation. Indeed, as I have pointed out, the present system provides the seed for such failure. However, we must also consider—indeed, we must give priority to—the interests of some 4 million investors, most of whom are far from affluent themselves.

All of us are interested in minimizing unemployment. But investors should not have to combat unemployment by paying artificially high prices—prices protected by law, not produced by market forces—for mutual fund shares. It may be that, as one member of this Committee has suggested, there is a mutual fund salesman here or there who just couldn't possibly make a living anywhere else and who would have to resort to public assistance if sales loads were reduced. I would doubt that. But there are also a number of very large and very prosperous New York Stock Exchange firms whose reputations, whose contacts with hosts of investors, and whose extensive networks of branch offices enable them to sell large quantities of mutual fund shares. These member firms—roughly 10% of the broker-dealer community—account for 40% of all fund sales. The high mutual fund sales loads of today enable these firms (remember that they are the firms who get the lion's share of the very generous brokerage commissions the funds pay out when they buy and sell securities) to do very well indeed. And this stems from Section 22 of the Act which frees them from the price competition and from S.E.C. oversight responsibility that exists in other areas of the securities business.

High sales loads may be of some help to the weak in the securities industry. But the general public pays a tremendous price for that help. And most of that price goes into the pockets of the largest and the most affluent securities firms who are well able to fend for themselves.

The most invidious of the arguments put forward, however, is that these rewards for selling mutual fund shares are necessary to keep in business small and medium sized funds who underwrite small issues, make local markets, and so on. No proof has been offered to support this. There is no reason why underwriting and market making should not be profitable. But even if we assume it to be correct, it amounts to a claim that the unsophisticated investor—so they describe him—must continue to pay these high charges else the firms will discontinue all activity. In other words, the unsophisticated investor must subsidize the most sophisticated and more affluent investor who buys new issues or invests directly. This is, indeed, a strange argument.