nett.) But clearly it should be one or the other, and not the present state of neither competition nor regulation.

12. FRONT-END LOADING OF MUTUAL FUND SHARES

What has been said of the problem of sales loads on lump-sum purchases of mutual fund shares is applicable to a far more aggravated extent in the case of front-end load plans for the purchase of mutual fund shares.

The contractual plan is a device whereby shares of a mutual fund normally sold for an 8.5 percent sales load are sold on a front-end load basis to persons who wish to invest periodically. Under the contractual plan, the investor is expected to make payments, usually over 8, 10 or 12½ year periods.

It is a long term program for the investor, but not for the seller. The 50 percent front-end load deductions from the first year's payments amount to from ½ to over ⅘ of the total sales load to be collected from all the payments to be made over the life of the plan. The investor prepays a sales load on installments which he may never make. We have already seen from the statistics provided by the industry that this too often is the case. After the front-end load is collected, the salesman is much more intersted in making fresh sales and in collecting new front-end loads than in promoting persistency among those who have already been sold and whose continued payments give the sellers a relatively minor fraction of what they can earn from new sales. A visit to an inactive planholder may produce one $50 payment at trail commission rates. But the Special Study of Securities Markets found that on the average six installments are initially paid on a new contractual plan sale. Thus the sellers will immediately collect half of $300 on the new sale.

The contractual plan has been likened to the constitution of a certain important world power. On paper, it is a surprisingly high-principled document. In practice, those subjected to it do not reach the promised goals. The representatives of the contractual plan sponsors have not denied that their own statistics show that contractual plans have failed to achieve the advertised goal—the promotion of systematic and consistent investing by plan purchasers over a substantial number of years. The plan sponsors' statistics show that substantially less than half of contractual plan investors complete their plans and that, as a result, large numbers of investors (25 to 43 percent of their customers) end up, 10 and 12 years after their initial purchase, having paid sales loads of 20 percent to 50 percent—two and one-half to six times as much as is paid by those who purchase fund shares on a lump-sum or voluntary, level load plan basis.

There is no such thing as a salesman who sells contractual plans exclusively. He is a mutual fund salesman. Contractual plans are merely part of his line. Any knowledgeable customer who wishes to invest in the same mutual fund by purchasing its shares on a lump-sum basis or periodically through a voluntary plan can and will obtain them at the normal sales load. And, he can obtain them from the very same salesman who sells front-end load plans in shares of that very same fund. It is only the unsophisticated who pay the inordinately expensive front-end load.

13. IS MUTUAL FUND INVESTING BY PERSONS WHO HAVE BEEN UNABLE TO ACCUMULATE SAVINGS FOR INVESTMENT PURPOSES SO DESIRABLE THAT A 50 PERCENT FRONT-END LOAD SHOULD CONTINUE TO BE PERMITTED UNDER THE INVESTMENT COMPANY ACT?

Even if we assume the desirability for some investors of this inefficient way of selling, i.e., of going to the homes of prospective customers, is the front-end load equitable when there is a good likelihood that a large proportion of those to whom salesmen are motivated to sell will not make future investments for which the front-end load is largely a prepayment?

Congress must decide whether it is good to have a type of selling which, according to its own proponents, depends for its very existence on the extraordinary subsidization of sellers of mutual funds by the many persons who pay the front-end load but cannot, or who for other compelling reasons, do not complete the plans.

It has been said that the front-end load brings the advantages of equity investment to many persons who otherwise would not invest. But according to a survey of mutual fund shareholders submitted by the Association of Mutual Fund Plan Sponsors, 47 percent of contractual plan holders do own common stocks. Sellers of those common stocks were able to reach these persons although the applicable sales charges were far less than those paid on contractual plans.