

its Board of Directors or to obtain the resignations of certain of the affiliated directors or a combination of these two alternatives. Loomis-Sayles represented that, because the board consisted of 14 directors, it did not believe that it would be in the best interest of its shareholders to increase the size of its Board of Directors. Furthermore, Loomis-Sayles represented that it did not believe that it would be in the best interests of its shareholders to remove from the board persons who had been selected on the basis of their ability and experience. The Commission granted Loomis-Sayles the order requested on October 25, 1967. It should be noted however, that the sole effect of the Commission's order is to permit Loomis-Sayles to avoid changing the make up of its Board of Directors while offering and selling its shares in Germany at a 7½ percentum sales load.

6. The Securities and Exchange Commission is studying the impact of investment companies and other financial institutions on the securities markets.

We are now attempting to expand our knowledge in this area by requesting more frequent reports from investment companies and by inaugurating a program to collect similar data for other institutions. The data presently available on institutional trading in individual securities are for the most part quarterly data on net changes in investment company portfolios. As part of its surveillance activities the Commission on certain occasions has made specific inquiries into investment company trading in particular securities.

CONCLUSIONS

As to the impact of mutual funds on the markets for particular securities, the Commission's Report on Public Policy Implications of Investment Company Growth noted their tendency to concentrate their portfolio holdings in relatively few securities. Indeed, in recent years many of the largest funds have reduced the number of different stocks in their portfolios. Such concentration increases the power of fund managers to affect the market in particular securities by their investment decisions. Further, as the irregular and relatively infrequent transactions of institutions in sizable blocks of securities become increasingly significant and the relative importance of individuals' 100- and 200-share orders declines, the auction markets find it increasingly difficult to maintain the high liquidity, depth and continuity which they traditionally have sought to achieve. Correspondingly, particular issues which mutual funds trade becomes more susceptible to sharp, sudden and erratic price fluctuations.

Our study of the quarterly data shows that there is some apparent relationship between changes in the balance of investment company holdings and the direction of price movements for individual stocks. Investment company impact appears greater on these stocks most heavily purchased on balance than on the stocks most heavily sold on balance.

One might logically infer that trading by investment companies causes this relationship. Others might argue, however, that investment companies have a tendency to buy stocks that are rising in price and sell stocks that are declining in price. On the basis of the quarterly data available it is impossible to reach any definitive answer.

The relationship of investment company transactions to stock market prices is strongly influenced by the behavior of the market as a whole. When the market goes down sharply (e.g., the second and third quarters of 1966) both the most heavily purchased and the most heavily sold stocks perform more poorly than when the market goes up (e.g., the fourth quarter of 1966 and the first quarter of 1967).

The Commission's case studies of trading in individual securities over short periods of time show that in some cases professional managers tend to have the same pertinent information and a similar ability to analyze it. Accordingly, their investment decisions tended to be homogeneous.

A fund manager that is determined to sell a large block quickly may not be able to find institutional purchasers willing to buy the block at something close to the last price. If the block cannot be sold near that price to the public through a secondary distribution, there is a strong possibility that the stock's price will decline sharply. This in turn may cause other fund managers to dispose of or lighten their holdings of the stock, causing the stock's price to plummet downward.