

This case primarily illustrates the adverse consequence that can result from the failure to amend a registration statement in a timely fashion. But it also is an example of the extent to which the public, when prone to speculate, will disregard the considered judgment of both the issuer and underwriter as to the approximate worth of the securities.

These matters are all too reminiscent of the experience of six years ago. They suggest that perhaps the only thing we learn from history is that nobody learns anything from history.

This audience, however, need not be reminded that the aftermath of hot issue markets can be disastrous for those in the investment banking business as well as for investors. In most cases, severe losses were sustained by those who invested in and, as of May 8, 1962, still held those hot issues. Following the May 1962 market break, the over-the-counter market went into doldrums from which it is only now—some five years later—beginning to emerge. And in that aftermath, the market for common stock underwritings also suffered for a long time. I am confident that the investment banking community will put its best foot forward in attempting not to encourage another major hot issues market with its inevitable aftermath.

I should make clear that, absent fraudulent and manipulative practices, speculation in the securities markets has never been viewed as unethical or opprobrious. In enacting the Securities Act of 1933 and the Exchange Act of 1934, the Congress recognized, however, that excessive speculation accompanied by considerable price gyrations can be detrimental to the national interest. The Exchange Act established certain controls over securities speculation. In Section 7 it vested in the Board of Governors of the Federal Reserve System power to regulate the amount of credit that may be initially extended on any security registered on a national securities exchange. By adjusting the amount of bank credit available for securities transactions, the "Fed" can attempt to moderate the tempo of price fluctuations in securities markets. Moreover, the Commission is authorized by Section 10(a) of the Exchange Act to prohibit or limit short sales of securities or the use of stop-loss orders. By all counts, these governmental powers and other regulatory authority contained in the Federal securities laws have been used judiciously to maintain public confidence in the securities markets. Our aim over the years has been to exercise the minimum amount of regulation of the securities markets consistent with the public interest and the interest of investors.

Speculation in the securities markets has long attracted the attention of the Securities and Exchange Commission. Until recently, our activities in this respect have primarily been directed toward uncovering situations in which fraud and manipulation are present or in which the absence of adequate information would provide the take-off point for such activity. Most recently, however, we have viewed with great concern certain new developments in the securities markets. One of these developments is short-term trading by a number of professional investment managers. Illustratively, financial institutions effected \$11.4 billion of common stock purchases and sales in the second quarter of 1967, a new record. This compares with a quarterly rate of \$8.1 billion in 1966 and only \$3.1 billion in 1962. In our Report of Public Policy Implications of Investment Company Growth we called attention to the following facts. I will not belabor you with more statistics, but in sum the facts are these:

1. The percentage of all corporate stock held in institutional portfolios has risen at a rapid rate.
2. Among institutions, increases in the stockholdings of investment companies and, most recently, of non-insured pension funds have been striking.
3. Institutions and institutional intermediaries account for a much larger proportion of trading volume in securities than their holdings alone would indicate.
4. Public individuals' share of trading volume has been declining while the institutions' share has been rising.
5. Mutual funds have, by far, the highest portfolio turnover rates of all institutional investors. The latest data indicate that mutual funds as a group are turning over their assets at an annual rate of 35%. Some, including large funds, have a far higher turnover rate. Mutual funds also tend to engage in larger size transactions than other institutional investors and account for a large portion of secondary distributions and other types of block distributions of securities.

Our Report noted further that despite the fact that the assets of mutual funds have grown at a rapid rate in recent years, many of the large funds which have