

shared in this growth have reduced the number of different stocks in their portfolios. This concentration increases the power of a few fund managers to affect by their investment decisions the market in particular securities.

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 become more susceptible to sharp, sudden and erratic price fluctuations.

The growth of the funds and other institutions has resulted in substituting the investment decisions of a few professional managers regarding large blocks of securities for the decisions of large numbers of individual investors. Individuals' investment decisions tend to be heterogeneous since there are wide differences in their knowledge of pertinent information, ability to analyze the facts at hand, and in their personal motivations to buy or sell at any particular time. Their buy and sell orders at any one time tend to be in rough balance and their imbalances generally can be handled by the market activity of professionals—specialists and others. Price fluctuations from order-to-order tend to be very close to the previous price.

Professional managers, however, tend to have the same pertinent information and similar ability to analyze it. Accordingly, their investment decisions tend 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, the chances are 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. Here are some examples.

*Case 1.*—On a single day in the Fall of 1966, well over 500,000 shares of the stock of one of the so-called glamour stocks were traded on the New York Stock Exchange. Trading in the issue opened at the high for the day and then skidded 16%; closing that day down 19½ points. Now what did the funds have to do with that? Mutual funds bought 1,500 shares (about ¼ of 1% of the day's trading) of that company during that day. But mutual funds sold nearly a quarter of a million shares (43.5% of the day's trading volume on that day. Among these sales by the funds were one block of 25,000 shares sold at 115¼, another block of 32,000 shares sold at 114, and a third block of 137,000 shares sold at 109½.

*Case 2.*—In the Summer of 1966, another of the glamour stocks declined 8% or 17½ points in two days. During that two-day decline, mutual funds sold over 130,000 shares of this company, approximately 44.7% of the two-day trading volume in the issue. True, some funds bought the stock as its price was skidding. But those fund purchases amounted in the aggregate to only about 50,000 shares, just about 37% of the massive volume of fund selling.

*Case 3.*—During seven trading days in the Fall of 1966, another common stock declined 32½ points from 151½ to 119 so that the market value of the stock fell by more than 20% in little more than a week. During this decline aggregate mutual fund sales of about 70,000 shares accounted for 45.15% of the total trading volume. Mutual funds did some buying during this period. They bought 3,000 shares, just about 4% of the number of shares that they had sold.

While these examples are not commonplace, they are no longer unusual. More could be cited.

During the first two decades following the enactment of the Investment Company Act of 1940, investment by the funds for long-term appreciation of capital and income was the name of the game. In recent years, however, many relatively new funds have pursued investment policies which favor rapid turnover of portfolio securities in the light of short-term market movements. Some of these funds have been successful in a considerable number of their longer-established competitors—but by no means all of them—has placed increased emphasis on taking short-term profits and losses.

The reverse side of this short-term trading activity occurs when fund managers decide a stock is a good buy at or about its current price. So they begin to accumulate the stock. This does not mean they purposely act in concert; but as noted, their behavior patterns often tend to be homogeneous and show a striking degree of similarity. As some funds buy this stock—and often the process of