

SALES EXPERIENCE

	1966	1965	1964
Proceeds from sale of new shares ¹	² \$7,490,785	\$3,432,052	\$8,401,165
Redemptions as a percent of new shares issued.....	23.2	30.6	21.4

¹ The group indicated above has maintained approximately the same percentage of ownership throughout this period. Thus, it can be assumed that a substantial portion of the proceeds from the sale of new shares came from this group rather than from sales to the general public.

² On Dec. 7, 1966, the fund acquired the assets of Pallas Corp. in exchange for 1,157,653 shares of Istel. Not included in this figure is the \$20,000,028 representing this acquisition.

B. MUTUAL FUND INDUSTRY IN GENERAL

The standard load funds are sold in one of two ways—either through dealer agreements which allow a dealer concession of a substantial portion of the sales charge or through the “captive” sales force. *Sales Experience* (Source: Investment Company Institute)

	1966	1965	1964
Total net assets.....	\$34,829,400,000	\$35,220,200,000	\$29,116,300,000
Proceeds from sale of new shares.....	\$6,422,100,000	\$5,196,600,000	\$4,016,200,000
Redemptions as percent of new shares issued.....	31.2	37.8	46.7

6. Would a relaxation of “tombstone ad” requirements for mutual funds help to reach prospective purchasers at less expense than is presently incurred? If mutual fund advertisements were only required to emphasize a few factors, such as management and sales expenses, would that result in more effective competition in the area emphasized?

The Securities Act of 1933 generally provides that advertisements for securities which are the subject of a registration statement filed with the Commission under that Act other than summary or full prospectuses, must be limited to identifying material with respect to the securities being offered. These restrictions apply to all securities subject to registration under the Securities Act and not only mutual fund shares. They reflect the Congressional determination that public offerings of securities should be made primarily through prospectuses containing adequate information material to informed investment decisions and not through advertisements.

In 1954 Congress again considered this question with particular reference to advertising of mutual funds and amended the Securities Act to give Commission rule-making power to permit some variation in the advertising restrictions of the Act for different types of securities. This amendment, however, was not intended to permit the Commission to adopt rules which go beyond the basic restriction of the Act against the sales of registered securities through advertisements which do not contain the basic information necessary to informed investment decisions. Nevertheless, the Commission, through adoption of Rule 134 in 1955 and subsequent interpretations has considerably liberalized restrictions on advertising. In recent years mutual funds have made greater use of advertising media in the sale of their shares.

The question of whether relaxation of tombstone advertisement requirements would enable mutual funds to reach investors more economically involves the question of whether such relaxation would result in a change in the existing competitive practice of the industry—substituting to some extent price competition for the favor of investors instead of the existing competition for the favor of dealers through sales compensation. Given the existing structure and sales methods of the industry, we doubt if a mere relaxation of requirements with respect to tombstone ads would bring about such a fundamental change in competitive practices. This is particularly true if one assumes that the restrictions on retail price competition imposed by Section 22(d) of the Investment Company Act would remain in effect.

At present there are certain funds which advertise quite extensively even within the existing limitations. Indeed, some funds use radio advertisements extensively while other funds have had their prospectuses printed as a supplement to