

Nor do we know what would have been the median experience of this group of investors in four plans if they had instead invested in voluntary plans. However, an indication of the impact of the front-end load on investor profits and losses is available for one of these four contractual plans. It is presented in Chart E on page 96 of the October 10, 1967 Statement of the Securities and Exchange Commission before the Subcommittee on Securities of the House Committee on Interstate and Foreign Commerce on H.R. 9510 and 9511.

Chart E compares profits or losses at the end of each year between 1955 and 1964 on investments made in a particular balanced fund through both the contractual and voluntary plan. Assuming investments of \$100 per month, at the end of the first year, the voluntary plan would have been worth \$8 less than the \$1,200 paid in, but the contractual plan would have been worth \$565 less than the \$1,200 paid in. At the end of the fourth year of systematic monthly payments, the profit on the voluntary plan would have been \$748, but the profit on the contractual plan would have been \$169. (The differences likely would have been greater had the experience of a growth fund rather than a balanced fund been considered.)

In the typical situation, at the end of the first twelve payments, a contractual plan investor has about 47% less invested than does a voluntary plan investor. His profits will be proportionately less than those of the voluntary plan investor. If he redeems at a loss, it too will be substantially greater for the contractual plan investor than for the voluntary plan investor. And the contractual plan investor who has as many as 24 payments will have about 23% less invested than under a voluntary plan. After having made 36 payments, at which point his effective sales load is about 19%, he will have about 14% less invested than under a voluntary plan. During the three years there will have been, on the average, more than a 14% difference between the amount invested under the contractual as opposed to the voluntary plan.

11. What changes in the proposed legislation may be necessary to accommodate and encourage no-load funds?

In our judgment, no changes in the proposed legislation are necessary to accommodate and encourage no-load funds. Aside from proposals with respect to sales charges which do not apply to the no-load funds, we do not believe that the legislative proposals affect no-load funds in a manner differently from load funds or would be burdensome to the no-load funds.

Mr. Ronald T. Lyman, Jr., spokesman for the no-load funds, testified before the Subcommittee to the effect that the legislation would place a particular burden upon the disinterested director of a no-load fund in those instances where, as permitted by law, a no-load fund has only one such director.

We do not believe that this is necessarily the case. The legislation would require the investment adviser to supply to all of the directors information with respect to the reasonableness of the investment advisory compensation and it would be the duty of all of the directors to consider and evaluate this information. This responsibility is not imposed solely on the disinterested director. We think that such a requirement of consideration and evaluation is implicit in the requirement of existing law that all the directors, including the disinterested director or directors, must approve the investment advisory contract. At the hearings industry witnesses and others differed in their views as to the seriousness with which the directors have in the past viewed this responsibility, but we believe all agreed that such a responsibility does exist and the furnishing of information would assist the directors in discharging that responsibility as well as directing their attention to the matter.

It also seemed to be generally agreed at the hearings that investment advisory fees should be reasonable. While the evaluation of the fee in the case of a no-load fund may involve somewhat different factors than are present in the case of a load fund, we would see no basis for exempting no-load funds from any requirement that fees be reasonable.

12. What has the experience of NYSE Monthly Investment Plan investors¹ been in the following areas:

¹ As of March 31, 1967, there were 217,263 MIP accounts in force through New York Stock Exchange member firms. Of these, 187,000 are handled through Merrill Lynch, Pierce, Fenner & Smith, Inc. (Merrill Lynch). About one half are individual regular MIP accounts and the rest are payroll deduction plans. The latter are not pertinent to the present discussion since the individual purchaser (employee) does not pay any commission; the employer pays a lump sum commission. The above discussion pertains only to the handling of individual MIP accounts. The Commission has not made an independent study of MIP. All of the information has been provided either by Merrill Lynch or the New York Stock Exchange.