

study concluded that if the proposed sales charge limitations had been in effect in 1966 it would have decreased the profits after taxes of small broker-dealers (gross income under \$100,000) by 179%—of those in the \$100,000–\$200,000 category by 222%—those under \$2.5 million sales by 28%—and those over \$2.5 million by 20%. As a result, the smallest firms which represent 64% of all broker-dealers would be forced from a profit to a loss position. I am sure this is not the SEC's purpose but it could still be the result.

MANAGEMENT FEES

We believe it is the prerogative of each management company to set the fees it feels are proper for the services being rendered. Notwithstanding the SEC's contentions to the contrary, the mutual fund management business is an extremely competitive one. In the face of this obvious certainty, it would be totally opposed to the American concept of business to have a federal regulation of prices or charges outside of the utility or subsidized industries.

The SEC's contention that the mutual fund management groups only compete for the dealer's favor and not for the investor's favor misses an important point. Management groups try to impress upon dealers the merits of their particular funds in the same way that all service industries try to impress the individual dealers handling their product. However, since the funds do not sell directly to the public, but only through dealers they must maintain a close association with these dealers to keep them informed on charges occurring within the funds.

In 1966 the average management fee paid by all mutual funds with assets of \$100 million or more (accounting for 80% of the industry's total assets) was 0.37% or \$3.70 per \$1,000. However, if the investor should so desire, he can select the fund with the lowest management fee. This information is readily available from a variety of publications located in public libraries as well as brokerage offices. However, it is hard to conclude from all the publicity involved in the legislative recommendations that mutual funds with very low management fees are widely available.

The underlying reason for the belief that mutual fund management fees are too high is the argument that since most major banks charge management fees in the area of .06 or .07 of 1% to their trust accounts over \$100 million in size, mutual funds should therefore do the same thing. Unfortunately, this reasoning does not take into consideration the fact that a bank, potentially, has many additional sources of income from each trust in addition to the management fee, while a mutual fund has the management fee as its only source of income.

Another item worth noting here is the recent mutual fund started by First National City Bank of New York. It has a minimum investment figure of \$10,000 and a ½ of 1% management fee. So, you see, not everyone with investment money being managed by a bank is getting this low .06–.07 of 1% charge as the SEC would lead you to believe.

CONTRACTUAL PLANS

The contractual concept was first pioneered by the life insurance industry and was exceptionally successful in achieving mass distribution of a desirable product—life insurance (it is solely because of the front-end sales charge that an insurance salesman can take time to sit down and sell an individual a \$10,000 whole life policy; in most cases, 50%–75% of the total first year's premium goes to the salesman, and approximately 7% of the premium for the next 7–10 years reverts to the salesman as commission). Such is also true of the present contractual mutual fund. cursory examination reveals that a publicly acceptable precedent exists and is the basis of the contractual concept. For anyone not interested in either of these systems, other possibilities exist: The insurance purchaser can buy term insurance or cheaper bank life insurance where the savings element would still be present but with a lower sales charge; the mutual fund buyer can buy a voluntary plan or no-load fund. I strongly suggest that as long as voluntary plans and no-load funds exist and are widely advertised and publicized, the SEC's idea of rising to the protection of the average investor by complete elimination of contractals is a disservice that will take its toll by severing all hope of equity investment by a majority of the American population.

While it may be true that the contractual fund buyer would have been better off to have invested in a voluntary plan for the same period of time, the real