

question is would he have started his program at all if someone hadn't sat down in his home and convinced him of the merits of the idea? And, if a salesman takes the time and patience and has the investment knowledge and sales ability to sit down and start a family on a regular fund purchase program, does he not deserve some sort of accelerated financial compensation? I feel it is important to realize that as a rule the contractual plan buyer is not a sophisticated equity investor. Margin, leverage, portfolio turnover rate, etc. are not important to him. Rather, he is interested in educating his children or supplementing his social security payments and benefits from the discipline encouraged under the contractual program.

It seems ironical that at a point in time when contractual spending and borrowing is urged upon the consumer from all sides that contractual investing should be so severely criticized. Credit card buying, loan agency borrowing and easy term car financing urge the average American to abandon personal economic and financial restraint. This is all considered part of our way of life.

Is a contractual plan any more of a disadvantage to a person who discontinues it in the second or third year, thus losing a percentage of his money invested, than is a whole life policy which is discontinued in the second or third year before any cash value has accumulated, or the repossession of an expensive automobile after the first year? In each case, a product was purchased with long term intentions but later disposed of after a short period of time, resulting in a financial loss. It is to be hoped that better selling will hold these cases to a minimum in the future.

Since the contractual type program seems to be the only economically feasible way of initiating and servicing small mutual fund accounts, where salesmen visits to the home are required, it is to be hoped that some modification of their first year 50% sales charge—say by spreading this charge over the first three years as one fund is now doing—will be evolved thus resulting in a still better investment vehicle.

In closing, I think it is well to mention that for many years Bache & Co. incorporated has tried diligently to insure that all mutual funds were properly sold and that all mutual fund liquidations were held to a minimum. Each liquidation requires a questionnaire to be completed by the registered representative involved to insure that such course of action was decided upon by the investor after careful consideration and not solicited by our representative.

BACHE & Co., INC.,
New York, November 2, 1967.

Congressman HASTINGS KEITH,
House Office Building,
Washington, D.C.

DEAR CONGRESSMAN KEITH: Thank you for your letter of October 20 in response to my views on the proposed mutual fund legislation.

The matter of no-load funds is a very misunderstood one. As you well know, the management companies sponsoring no-load funds do so for profit. The only difference between load and no-load funds is the manner of distribution; i.e., the former through salesmen (requiring commission), the latter directly from the sponsor.

Bache & Co. Incorporated does not have sales agreements with the sponsors of no-load funds. Let me emphasize at this point that this does not mean we question their integrity or investment acumen. It is just an economic fact of life that we cannot handle a product in which there is no chance of a possible commission or profit.

If a customer asked one of our R.R.s about investing in no-load funds, our salesman would attempt to interest the customer in an appropriate load fund if he felt the customer should be investing in funds in the first place. Failing in this, he would probably supply the customer with the address of one or more no-load funds with information to the effect that these funds can only be purchased directly from the sponsoring organization.

Our R.R. could supply the growth record, expense ratio and other readily available statistical information on a particular no-load fund but he would not go into other factors such as depth of management, investment philosophy, etc., since we, as a firm, do not maintain close liaison with these funds and are not prepared to give and maintain information of this nature. When a customer becomes a