

client by purchasing a mutual fund (or any other security for that matter), we feel it is our responsibility to stay well informed on the fund and management company so that at any time in the future we would be able to give an accurate recommendation to that particular client on the advisability of maintaining, decreasing or increasing his investment in that fund. In effect, we are put on retainer as financial advisors whenever anyone buys a mutual fund through us. This would be an impossible responsibility to fulfill with regard to no-loads since we do not keep in close touch with them for the reason stated above.

Therefore, to answer your last question, our salesmen could not be compensated for any effort expended on their part to help a customer purchase a no-load fund.

Generally speaking, no mutual fund should be purchased on the merits of its performance alone. However, for the most part, this is exactly what happens when an investor buys a no-load fund. He has very little understanding of the investment philosophy underlying portfolio changes, recent management changes that could possibly effect future investment results and, particularly for the large investor, of general stock market and economic conditions which should be the underlying factors upon which all investment decisions are based. In reality, it takes a sophisticated individual to examine the prospectus and literature of different no-load funds to choose the one best suited to his objectives.

We think the salesman plays a very important role in helping people select the proper investments—including the choice of the appropriate mutual fund. It is a generally accepted tenet of business life that you should not accept legal or medical advice through the mail. We have found this to be a wise philosophy in the investment field also.

If you should desire clarification on any of my comments or if you think there are any other areas in which I may be helpful, please do not hesitate to let me know.

Sincerely,

HAROLD L. BACHE,
Chairman of the Board.

STATEMENT OF FINANCIAL SERVICE CORPORATION OF AMERICA

SUMMARY

While we realize that our industry, like any other industry, can be improved, we are convinced that the proposed S.E.C. legislation is drastic in nature and would have very serious consequences on our business and on the investing public.

1. The elimination of contractual plans designed to compensate a salesman for selling relatively small monthly plans would:

A. Drive many salesmen out the business and attract virtually none to the business.

B. Remove one of the soundest methods of accumulating money now available to the American public.

2. The reduction of the maximum sales charge on cash mutual fund sales from 9% to 5% would:

A. Force some investment dealers out of business.

B. Force other investment dealers to merge into bigger companies.

C. Force many remaining investment dealers to concentrate on trading accounts—getting customers interested in buying and selling stock frequently—rather than on selling mutual funds to their customers. We believe that for many investors this would not be to their advantage.

DISCUSSION OF FINANCIAL SERVICE CORPORATION OF AMERICA'S POSITION ON S.E.C. LEGISLATIVE PROPOSALS

We have observed in working with several thousand individuals over the past 8½ years that most of them are not good investors.

We have also observed that the temptation to spend money—rather than save and invest it—is great. So great, in fact, that many people never accumulate over a few thousand dollars. This is frequently true, not only of those with moderate incomes but also those with high incomes. Somehow as the income rises the outgo rises to match it.