Because of the above we believe that mutual funds—to help the individual manage his money—and the mutual fund salesman—to convince him of the desirability of saving and investing—are a desirable part of the American economy.

Mutual funds offer the investor an opportunity, at reasonable cost, to have full-time professional investment men selecting his stocks for him. The results achieved by most of the funds have been excellent. There has been a net flow of money into mutual funds in each of the past 8 years. At the same time, there has been a net flow of money *out of* common stocks by individuals. This seems to indicate that the investing public more and more recognizes the value of professional investment help as offered by mutual funds.

We believe that the legislative proposals of the S.E.C. would have a very damaging effect on this industry that seems to be accomplishing so much for the American investor.

Here are the three primary recommendations of the S.E.C. and the position of Financial Service Corporation on each:

1. Reduce the maximum sales charge from 9% to 5%

The S.E.C. compares the cost of buying mutual funds with the cost of buying individual stocks on the New York Stock Exchange. They say that even 5% is substantially more than the N.Y.S.E. commission. This is true. However, individual stocks are bought and sold with great frequency by many investors. Mutual funds—by their very nature of providing a dynamic management of money are bought with the idea of *holding many years*. Because there is usually no need for the investor to change his investment in his funds, there is not the repeat business on the same money in mutual funds as there is in individual stocks.

The retail dealer in mutual funds has costs of operations similar to distributors of other products. Large office staffs must be maintained. A sales staff must be maintained. These are necessary to provide the investor the service that he needs and deserves.

Even if the retail dealer received the full 9% that could be charged—this is not a very big mark-up on a product. How many businesses are there who mark up their product only by that amount? The furniture business marks its product up 100%. Mark-ups of 40% and 50% are common to cover the cost of distribution in America.

As a practical matter the maximum sales charge made by the funds varies from 7½% to 8½%. The retail dealer receives only about 75% to 80% of this—or about 6%. Also the mutual funds offer discounts for larger purchases. For example, a typical breakdown of cost to the investor and % to retail dealer would be:

Amount invested	Percent of sales charge	Percent to retail dealer
Up to $24,999	8.0	6.0
$25,000 to $49,999	5.0	4.0
$50,000 to $99,999	4.0	3.7
$100,000 to $249,999	3.0	2.4
$250,000 to $499,999	2.5	2.0
$500,000 to $999,999	2.0	1.6
$1,000,000 or over	1.0	.8

In 1966 *Financial Service Corporation received only 4.4% on all funds sold.* This is *gross*. From this the salesman must be paid and the office staff for proper investor service to be maintained. Frankly, it is very difficult to make a reasonable profit on this small percentage.

The S.E.C. says that if the sales charge is reduced that more people will buy mutual funds and thus sales will increase and perhaps so would total income to the industry. We are not at all sure this is so. In any event, we feel that mutual funds are still going to have to be sold and serviced. There simply must be enough mark-up to accomplish this. We believe that if it is reduced *any* from its present level that the business will become so marginally profitable—if profitable at all—that it would be unattractive for firms to remain in the mutual fund business.

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