

2. "Elimination of contractual plan"

The S.E.C. position is that the contractual plan should be eliminated. This is the plan whereby the investor sets a specific goal for himself to invest periodically, usually monthly, until he reaches that goal. The cost that he pays on this investment if he reaches the goal is about the same as if he made a lump-sum investment. On the smaller plans, it is a little greater and on the larger plans it is a little less. However, he pays more of his costs the first year than he pays in subsequent years. The amount of costs paid in the first year is usually about 50% of his investment (although in larger plans it becomes smaller than this). His costs in subsequent years is usually about half of the regular charge of say 8% so that in the end his costs would come out to be around 8%.

The S.E.C. would like to eliminate these plans in order to protect those who buy them and then, for one reason or another, sell out before the fund has had an opportunity to produce a profit for them. We agree with them in that it would be desirable if no one ever took a loss on his investment plan. However, if this plan is eliminated, it is going to eliminate the only opportunity that many Americans will have to accumulate money in a sound way, through mutual funds.

For example, one mutual fund sponsor who has been selling contractual plans for many years presented these figures. From the years 1949 through 1965, 225,000 plans were effected. Of these, 202,000 had profits amounting to \$211 million. Twenty-three thousand had losses of \$4 million. The average loss per account was only \$178. Isn't it unreasonable to kill a system that, as shown in the above figures, has produced profits of \$211 million dollars just to save losses of \$4 million? Another important reason we believe the contractual plan should continue is simply to encourage the salesman to sell as many members of the American public as possible on thrift and investing in the American economy. This is a difficult job. Look at what the salesman has to go through in order to accomplish his mission and earn commissions. He must get an appointment with a man whom he believes has the ability to save some money. In times as busy as these this in itself is quite time-consuming. He must find out the situation of the individual—if he is in a position to invest. Then usually, if the individual is interested, he has the salesman sit down and explain it to both him and his wife. After the investor buys, the salesman must continue to stay in touch with him to have any administrative errors corrected, and over the years to continue to encourage him to invest.

As you might imagine, all of this takes many hours and in some cases many days to accomplish. If it were not for the contractual plan, for every \$100 a month customer, the salesman would receive only \$4 on that \$100 invested. This would be \$4 a month, but as you can see he would have to sell a great many of them in order to make a living. This simply is not enough in earnings for the amount of hard and creative work involved. He simply could not make a living in the business without the contractual plan.

But, of even greater loss than this would be the fact that millions of Americans would not be given the opportunity to accumulate money, a little at a time, on a monthly basis, in ownership of American industry. The contractual plan in mutual funds is probably the best opportunity that millions of them will ever have to become financially independent—to depend on themselves rather than someone else—particularly, the government.

3. The S.E.C. wants the authority to regulate management fees to be sure that they are "reasonable"

Financial Service Corporation is not directly engaged in this phase of the business. However, it is difficult for us to understand why in a very competitive business such as mutual funds a government agency should control the amount of profits made. The mutual funds business is far from a public utility type of operation. There are over 200 funds, each competing with each other for the business with the investing public in America. Why not let competition control the management fees that are charged?

If General Motors is alert enough and smart enough to make the kind of car the public wants to buy, we do not believe the government should control their profit per car. Competition should control this. Why isn't the same true in mutual fund management companies? If a fund can manage the public's money so well that they continue to want to buy it, why shouldn't their profits be greater than the funds that are not as alert and able? Isn't this the essence of the dynamic qualities of the American free enterprise economy?