

same problem by the use of a contingent fee, which depends on the fund beating the Dow Jones Industrial Average. The SEC also suggests that there is a layering of administrative expenses. This is a fact, but it is offset by other factors not mentioned by the SEC; it is much less expensive to operate a fund of this type than to operate a normal mutual fund, as it will not be necessary to maintain the large research department which is necessary for most mutual funds. It may also be expected that any increase in administrative expenses will be more than made up by the savings in sales charges which necessarily will be enjoyed by investors in these funds.

The last danger cited by the SEC is that of double sales loads. Pooled Funds, Inc. has no sales load, and First Multifund of America has a sales load of $1\frac{1}{2}\%$. We support the provisions of the proposed compromise which would limit sales loads to $1\frac{1}{2}\%$. Not only would this solve the double sales load problem cited by the SEC, but experience indicates that funds having no or a small sales load generally do not reach the large size achieved by some mutual funds having sales loads. Thus, even if a number of new funds of this type were to be formed, the impact on the industry could be expected to be negligible.

The SEC Report then attempts to indicate that funds of this type have no utility as an investment vehicle. The problem is stated by the SEC in terms of diversification of underlying portfolio securities which, of course, is not the diversification achieved by a fund of this type. A purchaser of mutual fund shares is not purchasing an interest in a portfolio; he is purchasing management. A holder of shares of more than one fund receives the judgment of the managers of each fund, not just that of one management. As the Report itself notes, most mutual fund investors agree with this concept. The Report states (page 207): "Moreover, a majority of mutual fund investors hold shares in more than one fund."

The SEC then argues that funds of this type will not be able to invest in only the best performing funds but, if they grow big enough, will have to go to the second best. The difficulty with this argument is, of course, that what is the "best" mutual fund is not necessarily an easy matter to determine. Should that fund be considered best which has performed the best in the past six months, one year, three years, or five years? What about funds which have consistently performed well in rising markets, but poorly in declining markets? In short, there is no such thing as a few "best" funds with all the others being second best.

The final SEC objection is that a fund of this type can avoid investment restrictions by investing in funds which do not themselves have such restriction. This argument, of course, ignores the fact that a domestic fund of this type must continuously have in effect, to sell its shares, an effective prospectus disclosing these matters.

In its attempt to paint as black a picture as possible of funds which invest in other funds, the SEC does not in its Report point out the advantages to investors of such funds. There are at least three major advantages to investors of these funds over the conventional mutual fund.

The first advantage has already been briefly discussed, namely, that a fund which invests in other funds provides directly to an investor that which most mutual fund investors have attempted to provide for themselves: diversification of portfolio management. As noted above, most mutual fund investors hold shares in more than one fund, for the simple reason that most people do not wish to trust all of their investment money to any one management. A fund which holds several funds not only provides directly this advantage sought by most mutual fund investors, but is in a much better position than such investors carefully to watch management performance on a continuous basis.

The second advantage of a fund which invests in other funds is that the selection of a particular mutual fund or funds for purchase is not, at the present time, an easy or simple one. In any rational selection of a mutual fund to be purchased, there must be weighed not only the past performance of various funds, but also the relative amounts of sales loads, advisory fees, whether or not there is large unrealized depreciation in the portfolios, and the expense ratios of the various funds. Other factors would include whether or not dividends or distributions may be reinvested at asset value, whether or not there are other funds in the same group having a conservative investment policy to which the investment may be switched without sales load in declining markets, and whether or not the fund provides various shareholder services, such as periodic investment at a level load through a bank custodian. In addition, there are today more and