

criminatory pricing. In the absence of Section 22(d) it would be the unsophisticated customer who would pay the highest price. Sophisticated customers and those purchasing in volume would reap the benefits of their ability to negotiate. The SEC has been critical of securities pricing mechanisms which permit such discrimination. (See *Special Study of Securities Markets of the SEC*, Part 2, pp. 627, 645).

Conclusion

There are a number of compelling questions which must be considered before any serious consideration can be given to any modification of Section 22(d). Some of these are:

1. Would the small investor be deprived of the opportunity to learn of and invest in mutual funds because normal distribution methods would be disrupted by chaotic price-cutting?
2. Would the training and supervision of mutual fund salesmen deteriorate, contrary to the goal of the "protection of investors" contained in the federal securities laws?
3. Would the non-sophisticated investor have to pay more than the sophisticated investor for the same mutual fund shares?
4. Would mutual funds be forced into net liquidation of their portfolios which would have especially serious consequences during times of market stress when dealers making markets in fund shares would redeem their shares with ultimate adverse consequences to the over-all economy?

None of the proponents of the repeal of Section 22(d) have even purported to examine these questions, much less to answer them. We believe that the answers are clear and that repeal of Section 22(d) would not be a responsible course of action in the public interest.

MUTUAL FUND PORTFOLIO ACTIVITY AND INVESTORS PURCHASES AND REDEMPTIONS DURING PERIODS OF MARKET DECLINE

Period	Time	Percent market decline	Mutual fund managers (dollars in millions)		Mutual fund investors (dollars in millions)	
			Portfolio purchases	Portfolio sales	Value of shares purchased	Value of shares redeemed
1. May to October 1946.....	6 months.....	-18.2	\$117.2	\$72.1	\$98.8	\$38.7
2. Korean war outbreak (week ending June 30, 1950).	1 week.....	-6.9	13.8	6.2	9.0	8.2
3. Eisenhower illness (week ending Sept. 30, 1955).	do.....	-4.3	16.3	13.0	22.5	10.1
4. Oct. 1-21, 1957.....	3 weeks.....	-7.3	81.6	32.4	46.8	15.9
5. Sept. 1-30, 1960.....	1 month.....	-7.3	255.0	199.1	177.0	64.9
6. January to March 1962.....	3 months.....	-3.3	1,365.1	856.7	922.1	282.4
7. April 1962.....	1 month.....	-5.9	(1)	(1)	260.1	91.3
8. January to April 1962.....	4 months.....	-9.0	(1)	(1)	1,182.2	373.7
9. May 28, 1962.....	1 day.....	-5.7	235.0	(1)	4.4	6.8
10. May 3 to July 2, 1965.....	2 months.....	-5.1	1,460.3	1,101.1	518.6	234.3
May 14 to June 28, 1965.....	6 weeks.....	-10.5	1,021.0	718.6	(1)	(1)
11. Apr. 18 to May 27, 1966.....	do.....	-5.4	1,404.1	1,186.4	673.9	370.3
12. Aug. 15-29, 1966.....	2 weeks.....	-8.7	474.9	463.9	104.8	74.6

Note.—The preceding studies constitute coverage of all periods of important market decline since the end of World War II. The studies were based, in each case, on reports received from substantial portions of the industry with the following percentages of assets of Investment Company Institute's open-end members represented: 1-74.3 percent; 2-96.5 percent; 3-82.5 percent; 4-79.0 percent; 5-98.4 percent; 6-100.0 percent; 7-100.0 percent; 8-100.0 percent; 9-75.0 percent; 10-77.7 percent; 11-83.0 percent; 12-83.9 percent.

¹ Not available. ² Net.

LEXINGTON RESEARCH & MANAGEMENT CORP.,
Englewood, N.J., May 12, 1967.

Subject: Proposed mutual fund bill.

HON. WILLIAM B. WIDNALL,
House of Representatives,
Washington, D.C.

DEAR MR. WIDNALL: Through our subsidiary, Templeton, Dobbrow & Vance, Inc., our organization has been in the investment counsel business since 1938. We advise portfolios of pension trusts, church funds, trusts, colleges and wealthy