

our understanding of the effects of the proposed legislation on our operations. Although our main office is in Missouri, our Kansas City, Kansas branch is the only member firm office in that city and we are glad to say serves many of your constituents. In addition several of my partners and many of our employees reside in Johnson and Wyandotte Counties.

We recently made a thorough analysis of the effect of the S.E.C. legislative proposals on our 1966 operations. As of December 31, 1966, H. O. Peet & Co. had been in business 29 years, had reported capital of \$2,677,328, employed 44 registered representatives and 46 other employees plus 9 partners. We were operating 4 branch offices and served more than 10,000 clients.

In 1966 our gross commissions were broken down as follows:

	Percent
Municipal bonds-----	1.7
Over-the-counter gross commissions-----	7.2
Mutual funds gross-----	23.7
Listed commission business-----	65.0
Underwriting gross-----	2.4

Included in the figures above representing listed commissions is a considerable amount of business directed to us by the various mutual funds.

As a businessman, you can well appreciate the fact that it is oftentimes the "plus business" that makes the difference between profit and loss in any given year. We have approximately half a million dollars invested in Exchange memberships. The commissions which we receive from mutual funds frequently represent the difference between operating on a break-even basis, at best, and making a satisfactory return on our investment. The conclusion to be reached from the S.E.C. report would be that certain institutions (mutual funds) should essentially be prohibited from doing business with firms which raise capital for them (sell their shares) and that all this business should be channeled through the huge Wall Street firms. The implication here is that they are entitled to this business by virtue of their size whereas we should be deprived of this business specifically because we show our confidence in these financial institutions by recommending investment in them. Carried to its logical conclusion, this would imply that the nation would be better off with only one brokerage firm through which everyone must execute their orders. This firm, of course, would be severely regulated by a federal agency to a point where it ultimately operated on a non-profit basis. (Perhaps another Post Office department?) This could hardly be classified as engendering the profit motive concept of economic growth. In fact, it would in many ways be like your having a building inspector tell you that you could not purchase materials from a particular supplier because that supplier had contracted with you to build a building for him. Surely nothing could be further from your actual desires than such a dictum.

Assuming the S.E.C. proposals were in effect during this period, the reduction of our net profit after partners' salaries and interest would have been minus 121%. If only those proposals concerning N.Y.S.E. volume discounts and any give-ups were in effect, the effect on our net profit would have been minus 96%.

We would unquestionably have to reappraise our entire operation in the event that the S.E.C. legislative proposals become law. For example it would become difficult if not impossible to attract new capital into the firm. There would be no retained earnings and who wants to put capital into a profitless operation? I think we would be forced to consider merger, liquidation or consolidation and the net effect would be to greatly reduce the investment services now available to the public we serve.

Aside from the immediate impact on profit, these legislative proposals would naturally affect our training program. For example we now have six men in training and in most instances our trainees are qualified as soon as possible (3 to 6 months) in the sale of mutual funds under partial registration with the N.Y.S.E. and a great deal of their time the first year or so is devoted to the sale of mutual funds. We have found that this is the only possible way they can come anywhere near making a living. I am sure our mutual fund sales would decline on a smaller sales charge but how much I don't think we can even begin to estimate.

This is an important part of a total training program which is necessary to develop fully qualified registered representatives. This is precisely the part of