THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 26, 1968

MEMORANDUM FOR THE PRESIDENT

Subject: Notes for your meeting with Equity Managers

Through Charles Maguire, you asked for some briefing notes and talking points for your meeting this afternoon with equity managers.

A. Background. This will be a group of relatively young men who manage the portfolios of the largest mutual funds, running into tens of billions of dollars.

- They want some personal insight on your views of our economic problems.

- They also want us to pay more attention to the stock market and its views and attitudes.

- It is true, as they complain, that the Government works harder to communicate with bankers and bond market people than with the equity community. The stock market is important: 24 million Americans own common stock directly, and 70-100 million more have an indirect stake in the stock market through pension funds, etc. Moreover, it is widely regarded as the leading barometer of "confidence."

- On the other hand, the Government must lean over backwards to avoid influencing the stock market. And the plain fact is that the new money to finance business expansion comes from banks and the bond market, not the stock market. Issues of new equities are only a tiny trickle.

B. Topics for discussion.

1. The tax bill. You might wish to acknowledge the statesmanlike and welcome support for the tax bill from the financial community at large and the vote of confidence that the stock market generally has given to it.

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The chief lobbyists against the Mutual Fund Bill are:

-- The Investment Company Institute (particularly the “old guard” members who are very reactionary) and opposed the SEC Act of 1933.

-- The two chief Washington lobbyists who potently prey on the House Committee are Chuck Colson (who used to represent the munitions industry) and Carl Shipley, former head of the D.C. Republican Committee.

-- Other key facts are:

  - mutual fund growth from $450 million in 1940 to $45 billion in 1968

  - There are over 4 million investors in the funds, many of modest means.

  - The President made his proposal for reform in February 1967 based on an exhaustive SEC study of

    1. Sales Commissions (which range around 8-10%). Interestingly enough these commissions have actually gone up as the funds grew larger.

    2. “Front end loads” in which the poor family who wants to back out after a year forfeits 50% of all the dollars it put in.

    3. Fees which the fund pays to its “investment adviser.” Oftentimes the officers of the fund are the same as the officers of the investment adviser and there is no “arms length” bargaining. The funds pay very high charges to their adviser rather than have this money work for the shareholder.

-- The bill comes to grips with these problems. Senate passed it Friday. Must move it out of Interstate and Foreign Commerce Subcommittee.