A further examination of some of the questions of portfolio policy raised in this chapter, those regarding price formation in the securities markets and the distribution of portfolio transactions over different market channels, as well as the question of the methods by which they are effected, is made in the course of an analysis of a consecutive series of investment fund transactions covering the active and rising market period of July through September 1958. The results of this study are contained in chapter VI of this report.

APPENDIX TO CHAPTER IV

The original questionnaire which formed the basis of much of this study was discussed briefly in chapter I. Replies of variable quality and depth were received to many parts of the questionnaire. However, wherever possible, the information contained in such answers was checked by comparison with company prospectuses and by correspondence with the companies. In addition, it became necessary to request supplementary data from many companies on several statistical matters.

Throughout the study, the universe being examined was classified into companies, control groups, and investment funds respectively, depending on the viewpoint demanded by the analysis. Companies were defined consistently as the basic legal entities comprising the industry, though a problem arose in the classification of Keystone Custodian Funds. Keystone Custodian Funds manages 10 trusts, each of which has a separate deed of trust, and each of whose shareholders has voting rights that pertain to that trust alone. For consistency with the separate legal entity criterion of company, the Keystone trusts were included as 10 separate companies, recognizing however, that the Keystone group is very similar to the true multiseries companies. For some purposes, therefore, the 10 trusts have been regarded as a single "company." The 11 Keystone companies, including the Keystone Fund of Canada, appear in the control group analysis as a single group.

The objectives of the study called for a consistent treatment of the data in terms of the sizes of investment funds comprising the industry. The funds have therefore been classified into four size groups by net assets as of September 1958, class limits being set at $10 million, $50 million, and $300 million, the last class containing a small group of seven funds having assets in excess of $300 million. Companies with assets of less than $1 million were excluded from the study. At the same time, the funds have been classified by type, based firstly on the funds' statements of their portfolio objectives and, in cases of ambiguity, on an examination of the portfolio structures during the period covered by the study. The type classification of open-end funds includes:

1. Foreign security funds (a group of nine companies holding portfolios of principally Canadian securities).
2. Specialty funds (companies whose portfolios comprise principally securities of one particular industry).
3. Bond and preferred stock funds.
4. Balanced funds:
   (*a*) Income objective.
   (*b*) Growth objective.
   (*c*) Mixed objective.
5. Common stock funds:
   (*a*) Income objective.
   (*b*) Growth objective.
   (*c*) Mixed objective.

For purposes of portfolio analysis a classification was made of some 3,000 corporations by industrial groupings in terms of the following five main categories: Industrials, utilities, transportation, financial, foreign. These categories contain a total of 33 subclasses as indicated in the following lists:

PORTFOLIO CLASSIFICATION

I. Industrials:
- A. Aircraft manufacturing and equipment.
- B. Amusement (including radio-TV and motion pictures).
- C. Auto and auto accessory (excluding tires).
- D. Building trade and building equipment.
- E. Chemicals and glass.
- F. Drugs.
- G. Electrical equipment.
- H. Food and beverages.
- I. Machinery, metals products.
- J. Office equipment.
- K. Paper products and publishing.
- L. Oil and natural gas production.
- M. Retail trade.
- N. Rubber and tires.
- O. Steel.
- P. Textiles, clothing, and footwear.
- Q. Tobacco.
- R. Miscellaneous.
- S. Mining.

II. Utilities:
- T. Utilities (including natural gas transmission and distribution).
- V. Telephone and communications.

III. Transportation:
- W. Railroads and railroad equipment:
  - W 1. Railroads.
  - W 2. Railroad equipment.
- X. Other transportation operations:
  - X 1. Airlines.
  - X 2. Shipping.
  - X 3. Bus and truck lines and other.

IV. Financial (including banks and insurance):
- Z 1. Banks.
- Z 2. Insurance.
- Z 3. Sales finance and personal loan.
- Z 4. Investment companies.
- Z 5. Other.

V. Foreign:
- A C. Canadian stocks.
- A N. Non-Canadian foreign stocks.

The portfolio data supplied in reply to the questionnaire were classified by the investment companies in widely varying forms, and a reconstruction was therefore made on the basis of the foregoing scheme to present, as a basis for further analysis, industrywide portfolio distributions at the four benchmark dates of the year-ends 1952, 1955, and 1957, and September 30, 1958.

A problem of selection arose in connection with the group of 30 common stocks listed in the questionnaire, and in relation to which the investment companies were requested to supply details of transactions during certain specified time periods. The selection was based on the annual listings by Vickers Bros. of the 50 stocks most favored by investment companies. The Vickers lists, which are republished in *Investment Companies,* the annual publication of Arthur Wiesenberger & Co., were obtained for the years 1951 through 1957. Each of the stocks included in the lists for one or more of those years was accorded a weighting obtained by adding together the values of the total investment companies' holdings of the stock in those years in which it appeared on the list. It was found that 90 common stocks had appeared on the list of the most favored 50 during the 7 year period. Ninety summations were thus obtained, and the stocks represented by the largest 30 summations were taken as the sample of stocks for use in the study. The 30 stocks were found to fall into 13 industrial groupings, in terms of the detailed industrial classification already referred to.

Half of these 30 stocks were included in the list of 25 stocks employed in the study of the Senate Committee on Banking and Currency, under the chairmanship of Senator J. W. Fulbright, on *Institutional Investors and the Stock Market, 1953–55*, and 12 of the 30 stocks are included in the list of 30 on the basis of which the Dow-Jones industrial average is calculated. In selecting this sample of securities it was desirable that the stocks be chosen not only from those heavily represented in investment company portfolios, but from those also which are actively traded in the security markets. Seven of the 30 stocks were included in the most active 25 stocks on the New York Stock Exchange during the year 1958, and in each of the years 1956 and 1957, 7 and 8 of the 30 stocks respectively were included in that market's 25 most active stocks.

The only remaining parts of the questionnaire calling for comment relate to the selection of the time periods covered in certain of the questions calling for statistical replies. Principally, the analysis is based on a comparison of balance sheets and portfolio distributions at four benchmark dates between December 1952 and September 1958 inclusive, and on details of turnovers of total portfolios and of securities of specified classes during the same years. Particulars of transactions by principal classes of securities were collected for each of the 51 months January through December, 1953 and July 1955 through September 1958. Semiannual totals of transactions were collected between January 1954 and June 1955. The selection of this period was indicated principally by the need to examine investment company trading procedures and market behavior over a sufficiently long time period to make it possible to exhibit any changes in structure which may have emerged, and over a sufficiently broad set of changing market conditions. No attempt was made to analyze investment company behavior during every month of the market rise between September 1953 and September 1955. It was desired to minimize the investment companies' burden of supplying statistical data, and a summary of their trading policies in this period has already been given in the study of the Senate Committee on Banking and Currency which was referred to above.

In order to study more closely the method and timing of investment companies' trading at times of significant change in stock market conditions, information was requested in the questionnaire on trading in principal types of portfolio securities and in the sample of 30 common stocks in four 4-weekly periods in 1956 and 1957. These groups of four weeks each include the 2 weeks on either side of a significant turning point in the market. These swings in market values relate to downturns in August 1956 and July 1957, and upturns in February and October 1957. To establish the dates of these turning points, a detailed analysis was made of movements during 1956, 1957, and 1958 of the Securities and Exchange Commission's 265 stock index, Standard & Poor's 425 stock index, and the Dow-Jones 30 stock industrial average.

Close coincidence of turning points in each of these market measures was observed. In the August 1956 downturn, for example, the Dow, Jones average and the Standard & Poor's index each reached its peak on the same day, Thursday, August 2. The high point of the Securities and Exchange Commission's index was reached in the same week. At the upturn in February 1957, again, the first two indicators moved very closely together, the low points being reached on Tuesday, February 12, in the case of the Standard & Poor's index and 2 days later, February 14, in the case of the Dow-Jones average. The Securities and Exchange Commission index, however, had reached its low point during the preceding week. At the downturn in July 1957 the pairing of indicators was changed. The Dow-Jones average and the Securities and Exchange Commission's index changed direction in the same week, Friday, July 12, in the case of the Dow, Jones average, while the Standard & Poor's index lagged slightly on this occasion and did not turn down until Monday of the following week. A different pattern, but still a close coincidence, was observed again in the next reversal of trend, the upturn in October 1957. As happened at five out of the nine turning points examined between December 1952 and December 1957, the Dow-Jones average and the Standard & Poor's index both changed direction on the same day, in this case Tuesday, October 22, 1957. The Securities and Exchange Commission's index had anticipated the other two measures on this occasion, however, and had turned upward during the preceding week, thus establishing a relationship between the respective measures similar to that which occurred in the previous major upturn of February of the same year, some 8 months previously. These movements established clearly the need to collect data, so far as weekly figures were to be used, for the weeks commencing on the Monday dates referred to in the questionnaire.

The final time period specified in the questionnaire is that contained in the question which requests details of all transactions on each day of the 3 months July through September 1958. The choice in this case was based mainly on the large volume of transactions which occurred in the market during that period. The average daily volume of shares traded on the New York Stock Exchange had been rising since February 1958 when reported volume had averaged 2 million shares daily. By July 1958 the corresponding average had risen by some 57 percent to 3.2 million shares and a further rise of 11 percent to a daily average of 3.4 million in September was recorded. On the highest volume days in each of July, August, and September, the number of shares traded was 4.4, 4.2, and 4.5 million respectively. Even higher market volumes were reported in October and November 1958, the highest day for the year being recorded on October 17, or some 2 weeks later than the final benchmark date of the present study. Volume on that day amounted to 5.4 million shares.

The following summary of trends in the common stock market will provide a background for the more detailed portfolio analysis in this chapter. The trend pattern of the market in the 1952–58 period exhibits two principal phases. A fairly rapid upward movement of values occurred between September 1953 and September 1955, followed by a succession of fluctuations of variable magnitudes about a newly established plateau between September 1955 and September 1958. The overall movement between December 1952 and the final benchmark date of September 1958 took the Dow-Jones industrial average from 291.90 to 532.09, an increase of 82.29 percent. During the same period the Standard & Poor's 500 stock index and the Securities and Exchange Commission 265 stock index rose by the comparable amounts of 88.32 and 79.76 percent respectively.

Following the downward drift in market values in the first 9 months of 1953, which took the market average to a low of 255.49, some 12.47 percent lower than its level at the beginning of the year, the sharp upward movement which terminated in September 1955 added 231.96 points to the Dow-Jones average to place it 90.79 percent higher at 487.45. The effect on investment company portfolios of this virtual doubling of market values can be observed in appendix table IV-1. The increase in assets of open-end companies between the yearends 1953 and 1955 was $3,899 million, whereas the total net inflow of funds resulting from the sale (less repurchases) of the companies' own shares amounted to only $1,644 million, or 42.2 percent of the overall 2-year increase.

While the stock market had been quite unstable during 1956, the industrial average at the end of that year had returned to a level which, at 499.47 was only 11 points, or 2.27 percent above the level at the end of the preceding year. In the following year, however, a rather wider cycle of stock prices developed, and following a 14.50 percent rise from 454.82 to 520.77 between early February and early July, an even sharper decline developed, to take the average to a low of 410.79 by the last week of October, a fall of 19.39 percent. The movement between October 1957 and September 1958 was fairly steadily upward, with both higher turnover volumes and more rapid price increases in the later months. The market recovery during this period, accompanied by an increased rate of inflow of funds, raised open-end investment company assets during the first 9 months of 1958 by some $3,316 million, or 37.1 percent. The overall incidence of the wide market swings during 1957, accompanied as they were by sharp and pronounced reversals of movement, was a contributing factor to the decline of investment company assets by $369 million or 4 percent during 1957, notwithstanding a net inflow of funds during that year of $1,195 million. This picture, however, masks the more detailed effects which contributed to an increase of assets of 7.6 percent in the first half of the year, followed by a decline of 10.7 percent during the next 6 months.

The data in appendix table IV-1, therefore, summarize the annual asset positions of the open-end investment companies included in the present study, and indicate in broad terms the relative effects of changing security values on the one hand and the inflow of new money on the other. The combined effects of these factors raised the industry assets, as represented by this universe, from $3,911 million at December 1952 to $12,249 million at September 1958 an overall increase of 213 percent. These data can be compared with appendix table IV-2 which shows the asset value of all investment companies registered with the Securities and Exchange Commission. While the data of appendix tables IV-1 and IV-2 are not directly comparable, owing to the use of calendar dates in the former and June 30 fiscal dates in

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the latter, the broad trends of asset figures are comparable. At June 1958 the assets of the companies represented in appendix table IV-1 amounted to $11,005 million, or 65 percent of the Securities and Exchange Commission estimate of total registered assets of $17,000 million, as shown in appendix table IV-2. A continuous series of total registered open-end company assets is not available from the Securities and Exchange Commission for annual benchmark dates throughout this period, but the Commission's estimate of total open-end assets at June 30, 1958, amounted to $11,371 million. The companies whose assets are aggregated in appendix table IV-1, therefore, accounted for 96.8 percent of the total open-end industry assets.

APPENDIX TABLE IV-1. *Number of open-end investment funds included in the present study and their total net assets, December 1952–September 1958*

Year ended Dec. 31	Number of funds	Net assets, at market value (millions)	Assets on 1952 base	Change in assets during year		Net proceeds of sale of own shares (millions)
				Percent [1]	Millions	
1952	152	$3,911				
1953	156	4,168	$106.6	6.6	$257	$462
1954	168	6,350	162.4	52.4	2,182	672
1955	174	8,067	206.3	27.0	1,717	972
1956	179	9,304	237.9	15.3	1,237	1,159
1957	184	8,935	228.4	−4.0	−369	1,195
1958 (September)	189	12,249	313.2	37.1	3,316	1,179
Total, net inflow of funds, January 1953–September 1958						5,639

[1] Calculations based on figures prior to rounding.

NOTE.—The numbers of open-end investment funds in this table differ from the SEC data in appendix table IV-2, owing to the exclusion of all funds whose assets at Sept. 30, 1958, were less than $1,000,000, and owing to the inclusion here as separate funds of the individual investment series of certain companies.

APPENDIX TABLE IV-2.—*Number of investment companies registered under the Investment Company Act of 1940 and their total assets, 1950–61*

Year ended June 30	Number of companies				Total assets, at market value (millions)	Assets on 1952 base [2] (millions)	Percent increase in assets during year [2]
	Open end	Closed end	Other [1]	Total			
1950	150	105	111	366	$4,700	$69	
1951	154	105	109	368	5,600	82	19
1952	163	101	103	367	6,800	100	21
1953	166	100	103	369	7,000	103	3
1954	174	106	104	384	8,700	128	24
1955	182	112	93	387	12,000	177	38
1956	201	106	92	399	14,000	206	17
1957	222	110	100	432	15,000	221	7
1958	238	111	104	453	17,000	250	13
1959	261	132	119	512	20,000	294	18
1960	290	149	131	570	23,500	346	15
1961	330	185	148	663	29,000	426	23

[1] Unit investment trusts and face amount certificate companies.
[2] Calculations based on rounded figures.

Source: Securities and Exchange Commission annual reports.