

activities than for the advisory activities in only a minority of the firms (12 out of 31) for which the comparison could be made.

In view of the importance attached to selling and sales promotion expenditures in the underwriting activities, table VIII-62 presents a distribution of the relevant expense ratios for 34 of the 37 adviser-underwriter firms supplying specific data on this point. The sales expense ratios (selling and sales promotion expenses as a percentage of total income) for these firms ranged from 3.9 to 869.6 percent with a median value of 51.3 percent. Five firms had sales expense ratios of greater than 100 percent, two of them greater than 200 percent.

TABLE VIII-62.—*Frequency distribution of 34 investment adviser-underwriters, by sales expense ratios, 1960-61*

Sales expense ratios (percent):	Number of firms
100 and over.....	5
80 and under 100.....	3
60 and under 80.....	6
40 and under 60.....	5
20 and under 40.....	8
0 and under 20.....	7
Total.....	34

The distribution evidences a wide dispersion of sales expense ratios about the median value, and a large number of significantly high ratios.

D. RATES OF RETURN EARNED ON NET WORTH IN INVESTMENT ADVISORY ACTIVITIES

The relative rates of return earned by investment advisers in the different size and type sectors referred to throughout this report can be judged fairly accurately from the foregoing analysis. A pattern of generally lower rates of return in advisory operations where the scale of activities is small, higher rates of returns where the advisory firms are managing larger total amounts of assets, and a tendency to lower rates of return in cases where the total incomes earned include a large percentage of income from non-investment-company clients, are all conclusions to which the preceding analysis of cost relationship points. There are, however, some features inherent in the data which merit brief comment and which call for a summary analysis.

First, the "service" nature of this industry minimizes the significance of a "net worth" or a "total investment" concept, compared with the significance of such concepts in nonfinancial sectors of the economy. The merchandising of investment advice is not a capital-intensive line of activity, and the possession of profitable contracts, as well as any judgment or portfolio acumen necessary to succeed in this kind of operation, can realize very large returns on a minimal capital investment. This will appear from the high rates of returns on net worth to be discussed below.

Second, it has not been possible to compute rates of return on net worth for all advisers referred to in the preceding analysis, owing not only to the division of function in many cases between advisory activities and the underwriting of investment company shares, but owing also to the fact that in many instances the total earnings of the

advisory firm are derived from sources other than those subject to review in the present study. As indicated at the beginning of this section, no financial data were available covering such other activities.

It was possible to sample from the total number of advisers under study, however, 43 corporations whose incomes were derived solely from investment advisory activities, and the whole of whose net worth, therefore, could be assumed to be invested in operations of this kind. These 43 corporations will be the subject of the following analysis.

Third, it was decided, for purposes of examining the incidence of varying returns on net worth in different sectors of the industry, to adopt the same size and type classifications as have been employed in the preceding sections. Before a committal was made to a classification by size classes of total assets managed, however, it was ascertained that a high degree of correlation existed between the ranking of these 43 advisers by size of assets managed and by size of net worth employed. A rank correlation coefficient of 83 percent existed at this point. In general, the larger aggregations of assets were managed by advisers having a larger investment of net worth.

TABLE VIII-63.—Rates of return on net worth earned by 43 investment advisers having corporate form, by size of open-end company assets managed, fiscal years ended 1960-61

Open-end company assets (in millions)	Rates of return before taxes			Rates of return after taxes				
	Investment companies and other clients— Income from other clients as percent of total income	Investment companies and other clients— Income from other clients as percent of total income			Investment companies and other clients— Income from other clients as percent of total income	Investment companies and other clients— Income from other clients as percent of total income		
		Less than 40	40 to 80	More than 80		Less than 40	40 to 80	More than 80
Under \$10.....	(24.8)	246.1	-----	-----	(30.7)	241.6	-----	-----
Number of advisers.....	9	1	-----	-----	9	1	-----	-----
\$10 and under \$50.....	30.1	-----	23.0	29.5	24.1	-----	22.0	20.7
Number of advisers.....	9	-----	3	1	9	-----	3	1
\$50 and under \$150.....	84.6	-----	-----	19.8	45.7	-----	-----	10.4
Number of advisers.....	1	-----	-----	4	1	-----	-----	4
\$150 and under \$300.....	-----	35.2	31.0	22.4	-----	17.3	15.5	14.6
Number of advisers.....	-----	1	1	2	-----	1	1	2
\$300 and under \$600.....	69.3	35.7	38.1	9.9	31.7	18.4	19.3	7.1
Number of advisers.....	1	2	1	1	1	2	1	1
\$600 and over.....	316.7	129.1	-----	95.5	140.3	68.5	-----	85.7
Number of advisers.....	1	2	-----	3	1	2	-----	3

Table VIII-63 presents a weighted average return on net worth, on both a before-tax and an after-tax basis, for each of the same size and type classes as previously employed. The losses experienced by the nine advisers managing investment company assets of less than \$10 million can be noted again, though it is now seen that the sole adviser in this size class which manages assets of non-investment-company clients also realized a return on net worth of 246 percent during the period under study. Although the progression of rates of return is not uniform or consistent for all type classes, the table suggests that higher rates of return are more likely to be realized in the management of larger aggregations of assets. It is noteworthy also that the rates of return tend to fall as the proportion of the adviser's income obtained from non-investment-company clients increases. In the largest three

size classes, for example, the returns on net worth, on a before-tax basis, fell from 129.1 to 95.5 percent, from 35.7 to 9.9 percent, and from 35.2 to 22.4 percent as the percentage of income received from non-investment-company clients rose from less than 40 percent to greater than 80 percent.

The frequency distributions contained in table VIII-64, based on a classification of returns on net worth realized in the management of assets of specified size classes, indicate the wide dispersion of returns in the industry. The range of returns on net worth, on a before-tax basis, extends from 505.6 percent realized by an adviser managing assets in the \$10 to \$50 million size class, to a loss of 326 percent experienced by an adviser whose assets managed fell in the smallest size class, assets of \$1 to \$10 million. The median rate of return was 29.5 percent, realized by an adviser managing assets in the \$10 to \$50 million size class. The second and third highest rates of return were reported by advisers in the largest size class of assets, those in excess of \$600 million.

TABLE VIII-64.—Rates of return on net worth before income taxes earned by 43 investment advisers having corporate form, by size of open-end company assets managed, fiscal years ended 1960-61

Rate of return on net worth before income tax	Open-end company assets (in millions of dollars)— Rate of return listed for each adviser						Number of advisers in rate of return class
	600 and over	300 and under 600	150 and under 300	50 and under 150	10 and under 50	1 and under 10	
	Percent	Percent	Percent	Percent	Percent	Percent	
300 percent and over.....	419.6				505.6		3
100 to 300 percent.....	316.7				177.4	246.1	4
50 to 100 percent.....	99.2	69.3		84.6	55.5		4
30 to 50 percent.....		38.1	35.2	31.6	46.5	49.4	
		36.1	31.0		43.2		
		34.8			35.3		10
20 to 30 percent.....	28.5		29.2	24.2	29.5	27.9	
				21.1	29.4	21.8	
					26.6		9
0 to 20 percent.....	13.2	9.9	0		18.0		4
-20 percent to 0 ¹				(16.2)	(14.1)	(1.3)	
					(18.5)	(4.2)	
						(4.4)	
						(11.8)	7
-40 to 20 percent ¹						(33.8)	1
Less than 40 percent ¹						(326.0)	1
Total.....							43

¹ Negative values shown in table by ().

TABLE VIII-65.—Rates of return on net worth after income taxes earned by 43 investment advisers having corporate form, by size of open-end company assets managed, fiscal years ended 1960-61

Rate of return on net worth after income tax	Open-end company assets (in millions of dollars)— Rate of return listed for each adviser						Number of advisers in rate of return class
	600 and over	300 and under 600	150 and under 300	50 and under 150	10 and under 50	1 and under 10	
200 percent and over	Percent 263.0	Percent	Percent	Percent	Percent 469.5	Percent 241.6	3
100 to 200 percent	176.1				177.4		4
50 to 100 percent	140.3				139.7		0
20 to 50 percent	48.5	31.7		45.7	38.9	34.4	
				31.6	32.6		
					29.4		
					22.7		
					20.7		10
10 to 20 percent	15.4	19.3	19.1	13.3	15.5	19.5	
		19.0	17.3	11.2	12.6	15.4	
0 to 10 percent	9.0	17.1	15.5				13
-20 percent to 0 ¹		7.1	0.	(16.2)	4.2	(1.3)	4
					(14.1)	(4.2)	
					(18.5)	(4.4)	
-40 to -20 percent ¹						(11.8)	7
						(33.8)	1
Less than -40 percent ¹						(326.0)	1
Total							43

¹ Negative values shown in table by ()

TABLE VIII-66.—Rates of return on net worth earned by partnerships and proprietorships and by corporations of comparable size, by total assets managed, 1960-61

Partnership and proprietorship adviser	Rates of return on net worth		Salary imputation as percent of total income	Rates of return for corporations of comparable size and type	
	Before owners' drawings and officers' salaries	After imputing owners' and officers' salaries		Before taxes and before officers' salaries	Before taxes and after officers' salaries
A	Percent 53.1	Percent 45.4	Percent 10	Percent 165.0	Percent 129.1
B	450.0	372.3	10	123.9	95.5
C	217.4	170.0	15	75.1	69.3
D	74.5	(131.7)	40	223.9	31.0
E	559.4	231.3	40	223.9	31.0
F	14.2	10.3	25	(¹)	(¹)
G	134.7	(11.1)	50	115.3	23.0
H	95.8	(6.3)	50	121.0	29.5
I	195.1	46.6	50	121.0	29.5

¹ Not available.

Table VIII-65 presents a comparable distribution of rates of return on net worth on an after-tax basis. The median return on this basis was 17.3 percent and it is seen that 23 cases, or 53 percent of the total number, recorded returns of between 10 and 50 percent. Seven advisers earned more than 100 percent on net worth on an after-tax basis, and nine advisers, again in the smaller size classes of assets managed, recorded losses.

The median rates of return on net worth of 29.5 percent on a before-tax basis and 17.3 percent after tax might be compared with the average rates of return on net worth of business services and personal

services corporations for the year 1958-59, as reported by the Internal Revenue Service. These latter rates of return were somewhat lower at 17.6 percent and 12.1 percent respectively before tax and 9.2 percent and 6.7 percent after tax. Though these rates of return referred mainly to earnings in the recession year of 1958, it was observed that in the preceding year the rates of return earned by business services corporations had been less than 2 percentage points higher and those earned by personal services corporations had been less than 1 percentage point higher. It should be pointed out also when making these comparisons between the rates of return on net worth earned by the investment advisers and by the service corporations that the precise significance of net worth, or the degree of capital intensity, may be different for the different samples of firms. And there no doubt exist wide differences in the type and qualifications of management personnel in the different types of undertaking.

The examination of the returns on net worth earned by the partnerships and proprietorships already referred to is rendered difficult by the variations in the manner of reporting partners' drawings and salaries. It was found, however, that of the 15 partnerships and 4 proprietorships previously examined, 7 and 2 respectively confined their activities principally to investment advisory activities, and supplied sufficient data to permit a computation of rates of earnings on net worth employed.

Table VIII-66 presents, first, a rate of return on net worth based on net income before owners' withdrawals and officers' salaries, analogous to the income and relevant cost concepts employed in the preceding income account analysis. Second, a return on net worth is computed after imputing to the owners a salary income equal to the average percentage of gross income absorbed for directors' and officers' salaries in the corporate advisers managing comparable sizes and types of assets. For purposes of table VIII-66 the nine partnerships and proprietorships have been ranked according to the aggregate amount of assets managed, and in each case the rates of earnings have been compared with the rates of return, calculated on comparable bases, earned by the advisers in corporate form which (a) manage comparable amounts of assets and (b) obtain a comparable proportion of their total income from non-investment-company clients.

Owing to the approximations involved in this analysis, not a great deal of significance is to be attached to the actual magnitudes involved in the comparisons. In the first place, the salary imputation percentage is a rounded average expense ratio for comparable size and type classes of advisers, though it does exhibit the previously noted negative relation between size of assets managed and the directors' and officers' salary payments. Secondly, it is clear that in both corporations and partnerships the officers' and directors' or owners' salaries are quite variable in relation to net incomes, and significant differences emerge between the corporations' returns on net worth on a "before officers' salaries" and "after officers' salaries" basis. (See table VIII-66, columns 4 and 5.) Thirdly, it is noted that the same variability and dispersion of returns on net worth is noted in the case of the partnerships and proprietorships as was observed previously in the corporations. The highest partnership return, on a before-salaries basis, was 559.4 percent, realized by a firm managing assets of \$250 million, and the highest return after salary imputation was 372.3 percent realized

by a firm managing assets of nearly \$800 million. None of the partnerships or proprietorships recorded a loss on operations on a before-salaries basis, and the median rate of return on net worth on this basis was 134.7 percent. After salary imputation, however, three firms showed losses, and the median return on this national basis was 45.4 percent, realized by the largest partnership in the group. In actual fact as noted earlier, however, this partnership reported a small total operating loss after paying owners' and officers' salaries of \$850,000 out of a gross advisory income of \$1,003,722.

In table VIII-66 comparisons can be made between rates of return on net worth for partnerships and proprietorships on the one hand and corporations on the other (a) on a before-salaries basis, columns 1 and 4, and (b) on an after salaries basis, columns 2 and 5. On the first-mentioned comparison, showing rates of return on net worth before charging owners', directors' and officers' salaries, the returns realized by the partnerships and proprietorships exceeded those of corporations of comparable size and type in five out of the eight instances in which comparisons were possible. The comparison of rates of return after the deduction of directors' and officers' salaries in the case of the corporations and the deduction of an imputed salary income in the case of the partnerships and proprietorships, however, favored the latter in only four out of the eight cases.

The analysis of the rates of return on net worth examined also the earnings of 19 advisers in the corporate form whose activities were confined to advisory and underwriting activities, and whose net worth was therefore considered as invested solely in these joint lines of business. Table VIII-67 indicates the weighted average return on net worth (on both a before-tax and an after-tax basis) for specified size and type classes of adviser-underwriters, compared with the returns realized by corporations performing an advisory function only. Except for the rate of earnings recorded by a single adviser-underwriter in the \$50 to \$150 million asset size class, the pattern of relationships evidenced in the table is fairly consistent with that suggested by the earlier analysis of the costs of operation in firms performing a joint advisory-underwriting function and those performing an advisory function only. In general, the rates of return realized by the joint adviser-underwriters are sharply lower, and, as also anticipated by the earlier cost analysis, sizable losses were suffered by firms whose related asset totals were less than \$10 million.

TABLE VIII-67.—Rates of return on net worth earned by corporations performing joint advisory and underwriting functions, and those performing an advisory function only, by size of open-end company assets managed, 1960-61

Open-end company assets (in millions)	Rates of return on net worth (percent)			
	Before tax		After tax	
	Advisory and underwriting	Advisory only	Advisory and underwriting	Advisory only
0 and under \$1.....	(52.1)	(24.8)	(52.4)	(30.7)
\$1 and under \$10.....	(19.1)		(23.0)	
\$10 and under \$50.....	29.8	30.1	16.3	24.1
\$50 and under \$150.....	119.6	84.6	60.1	45.7
\$150 and under \$300.....	87.4	(¹)	42.1	(¹)
\$300 and under \$600:				
(i) Investment company assets only.....	16.6	69.3	14.7	31.7
(ii) Less than 40 percent of income from other clients ²	31.2	35.7	18.9	18.4
\$600 and over.....	90.5	316.7	41.4	140.3

¹ Not available.

² Total assets managed are in the designated size class. The remaining classes of the table refer to open-end company assets only.

NOTE.—Parentheses indicate loss.

Taking the 19 adviser-underwriters included in the present comparisons, the returns on net worth on a before-tax basis ranged from 125.3 percent for a firm in the \$1-to-\$10-million-asset size class, to a loss of 205.8 percent for a firm whose related assets amounted to less than \$1 million. On an after-tax basis the same two corporations set the limits of the range of rates of return, no tax being paid in either case. The second highest return on an after-tax basis was 77.9 percent, earned by a corporation in the \$300-to-\$600-million-asset size class, and the median after-tax rate of return was 18.7 percent, earned by an adviser-underwriter in the \$10-to-\$50-million-asset size class.

E. OPERATING COST RATIOS OF INVESTMENT COMPANIES NOT EMPLOYING A SEPARATE ADVISER

The data available for the present study permitted an analysis of the operating costs of 11 investment company groups which did not employ a separate investment adviser or manager. It has not been possible, on the basis of the published income accounts of these companies, to classify expenditure items in a manner comparable with the classifications adopted throughout the preceding analysis. For present purposes, certain large expenditure items, principally directors' and officers' salaries, research expenses where specifically noted, and compensation paid to trustees and advisory boards, were aggregated under the heading of "management," and this was employed as an approximation to the general level of management expenses which might otherwise have been incurred by way of an investment advisory fee.⁵³ These figures are shown in table VIII-68, together with the

⁵³ It should be noted that the effective management costs employed in this analysis (see table VIII-68) are fractionally lower than those used in an earlier section of this chapter. In the earlier analysis the management expenses were related to the average value of assets managed during the year, and in the present case the expenses are related to the amount of assets managed as of the end of the year. The differences in effective management expenses changed the magnitudes slightly, but do not affect the nature of the relationships or the conclusions of this section. The present method permits a comparison between the computed management fee rates and the expenses of operation of separate investment advisers as discussed previously. (See table VIII-69.)

remaining expenditures which are generally of a kind incurred in normal investment company operations. The cost items in table VIII-68 are expressed in cents per \$1,000 of assets managed.

TABLE VIII-68.—*Operating expenses, in cents per \$1,000 of assets managed, of investment companies which do not have a separate investment adviser, by size of open-end company assets managed, 1960-61*

Open-end company assets (in millions)	Company	Expenses in cents per \$1,000 managed		
		Management	Other	Total
\$600 and over.....	A	134	72	206
\$300 and under \$600.....	B	135	88	223
\$50 and under \$150.....	C	185	128	313
	D	335	243	578
\$10 and under \$50.....	E	441	196	637
	F	263	296	559
	G	459	574	1,033
\$1 and under \$10.....	H	491	310	801
0 and under \$1.....	I	722	3,380	4,102
	J	450	247	697
	K	630	3,295	3,925

The table indicates clearly the same negative relation as noted previously between operating cost ratios and the size of assets managed. More particularly, the expense items here designated "management" similarly show a fairly well defined negative relation to the size of assets managed, but they do not rise above 0.5 percent except for the smallest size class of assets, those amounting to less than \$1 million. This feature of the results may be compared with the fact, examined more fully in an earlier section of this chapter, that the advisory-management contracts between the investment companies and their advisers stipulate most frequently an annual fee of approximately 0.5 percent of the assets involved. Generally, therefore, these 11 investment company groups have apparently been able to manage their own portfolios at a cost lower than the expense they would have incurred if they had contracted the management function to a separate advisory organization. The comparison, of course, may contain some margin of error, owing to the difficulty of specifying precisely those expense items in these 11 investment companies' income accounts which would normally be incurred by an investment adviser. But the general direction of the relation is clear from the present analysis. In the largest investment company system in table VIII-68, for example, the Massachusetts Investors Trust group, the management expense was only 134 cents per \$1,000 of assets, or 0.134 percent. This cost ratio was based on an asset total of nearly \$2 billion. The second largest system, the Broad Street group, which manages a combined open-end investment company asset total of approximately \$400 million, experienced almost the same management expense ratio of 0.135 percent.

TABLE VIII-69.—Costs of operation, in cents per \$1,000 of assets managed, of corporate investment advisers and investment company groups which do not employ a separate adviser, 1960-61

Open-end company assets (in millions)	Company	Expenses in cents per \$1,000 managed	
		"Management" expenses for investment companies with no adviser	Total operating expenses for corporate advisers managing investment company assets only
Over \$600.....	A	134	167
\$300 and under \$600.....	B	135	127
\$50 and under \$150.....	C	185	307
	D	335	-----
\$10 and under \$50.....	E	441	400
	F	263	-----
	G	459	-----
\$1 and under \$10.....	H	491	621
0 and under \$1.....	I	722	961
	J	450	-----
	K	630	-----

Accepting the approximations involved in the "management" expense column of table VIII-68, and thus in the designation of those investment company expenses which might be comparable to the costs of portfolio management incurred by advisory organizations, a comparison is made in table VIII-69 between the costs of operation per dollar of assets managed for the corporate advisers examined previously, and for the 11 investment company groups just referred to. The table indicates that in both types of operation a negative relation emerges between operating expenses per dollar of assets and the size of assets managed. It is noted also that the costs per dollar of assets are approximately the same for the two types of operation in most asset size classes in the industry. In the largest size class the investment company group which did not employ a separate adviser had management expenses of 134 cents per \$1,000 of assets compared with the higher cost of 167 cents for advisers of similar size. Variations in the direction of the relation between the 2 types of operation occur in the differing size classes in table VIII-69, but in 7 out of the 11 cases the operating costs were lower per dollar of assets for investment companies which did not employ an adviser. Three of these cases occurred in the smallest asset size class where the expense ratios were very high, but not as high as for investment advisers in this size class.

V. BROKERAGE ALLOCATIONS TO DEALERS IN OPEN-END COMPANY SHARES AND TO OTHERS

It has been noted at various points in this study that management groups controlling open-end investment companies have strong incentives to increase their asset size, and that the primary means of achieving such growth has been the sale of open-end company shares to the public. One aspect of the mechanism of selling mutual fund shares that has attracted considerable attention in recent years has been the widespread practice of channeling brokerage commissions

generated by mutual fund portfolio activity to dealers selling their shares, as both reward and stimulus. Although methods of selling open-end company shares have not in general been subject to investigation in this study, the relationship of brokerage payments to sales of investment company shares is of such interest and importance that it is given special attention in this section.

This development is significant for three main reasons. In the first place, this practice could be construed as the payment of additional compensation for the selling of mutual fund shares, and buyers are less likely to be aware of dealer interest through this indirect route. Second, and more important, brokerage commissions generated by portfolio transactions may properly be regarded as a valuable resource owned by shareholders of mutual funds, which enables the manager of their property to command in their interest a wide array of services, such as investment advice from a brokerage firm.

Where the management group diverts a substantial percentage of brokerage commissions to salesmen as compensation for selling open-end company shares, the question may be raised whether this allocation is advantageous to shareholders as well as to the management group, which has an obvious stake in the growth of asset size. One answer to this question suggested by the industry is that shareholders benefit from the growth in fund size as a consequence of reduced expenses of operation. However, where these reduced expenses have led to no corresponding decline in management fee rates this benefit would not be reflected in a very substantial component of fund expenses.⁵⁴ It may be recalled here that of the 27 advisers managing open-end company assets of \$150 million or more, 15 had effective management fee rates of 0.5 percent or over, which, in most cases, had been maintained at a fixed level over periods during which assets had increased substantially. A third question which might be raised when substantial proportions of brokerage commissions can be used for indirect payments ("giveups") to dealers in mutual fund shares concerns the basis of the existing price structure for brokerage services.

In order to investigate these issues a series of questions was directed to open-end companies relating to the nature and extent of dealer compensation by means of brokerage commissions, as well as other factors influencing the distribution of brokerage business by management groups of open-end investment companies. Companies were asked to indicate the amount of brokerage commissions allocated to outside advisers by the investment adviser or investment company as compensation for investment advice, the amounts received by persons affiliated with the investment company or investment adviser (including their officers, directors, employees, substantial owners, and the immediate families of these individuals), and they were re-

⁵⁴ In the annual report of Waddell & Reed, Inc., for 1960, it was stated that "Since some liquidation of shares is always to be expected, it is essential that satisfactory sales of new shares be continuously maintained, so that sufficient assets are preserved to keep the ratio of operating expenses as low as possible" (p. 3). The assets of this group have increased from \$123,000 at the end of 1940 to \$48,397,000 at the end of 1960 to \$879,174,000 at the close of 1960. Although assets of this group were not only "preserved" but expanded by a factor of over 7,000 since 1940, and by 18.2 times since 1950, the effective management fee rate charged shareholders has fallen from a fixed rate of approximately 0.5 percent to an effective rate of approximately 0.47 percent. Either no significant reduction in the ratio of operating expenses has been achieved by this great increase in size or such reductions have not been passed on to shareholders in the form of reduced management fee rates.

quested to describe their policies with respect to the participation of dealers in investment company shares in brokerage business—

and the basis or bases upon which such participation is allocated, including the nature of the benefits made available to the investment adviser or investment company.

This was supplemented by a request for full information as to the dollar amounts of shares sold, and direct and indirect participations in brokerage commissions, by the 20 dealers who sold the largest volume of shares of the mutual fund or group, and the brokerage commissions paid to the 20 brokers who received the largest amount of such commissions from the fund or group during 1960. The discussion that follows is based primarily on the replies to these questions.

A. FACTORS INFLUENCING THE ALLOCATION OF BROKERAGE COMMISSIONS

Of the 151 adviser groups included in the present study, 83 provided information regarding the bases of their brokerage allocations. The 68 omissions were made up largely of firms that were not selling any substantial volume of shares through independent dealers during 1960. For the 83 respondents, the factors listed as influencing the direction of brokerage payments are enumerated in table VIII-70. It should be noted here that this enumeration is based on an incomplete set of replies that were not consistently or fully answered by the respondent investment companies. The table and associated discussion should therefore be regarded as illustrative only.

TABLE VIII-70.—*Factors influencing the allocation of brokerage commissions for 83 open-end investment company groups, 1960*

Factor	Number	Percent ¹
1. Sales of mutual fund shares.....	63	75.9
2. Provision of investment research and statistical information.....	35	45.8
3. Daily quotation services for portfolio valuation.....	31	37.3
4. Ability to execute sales efficiently and at best price.....	19	22.9
5. Provision of direct telephone lines and wire services.....	9	10.8
6. Affiliations.....	7	8.4
7. Provision of sales promotion material, sales advice, and aids.....	6	7.2
8. Location.....	1	1.2
9. Receipt of publications.....	1	1.2
10. Other services.....	8	9.6

¹ Percent is based on the 83 company groups which provided the necessary information.

(1) *Sale of investment company shares*

It may be seen in this table that about three-fourths of these advisers reported sales of mutual fund shares as a factor influencing the allocation of brokerage business. Sales of investment company shares were not only most frequently referred to as a factor influencing brokerage allocations, they were commonly referred to in these replies as the principal factor influencing such allocations. Thus, for example, the Boston Management & Research Co. reported that—

it is the practice, so far as it is practically possible, to either place a major portion of standard brokerage business with, or to direct that commission on such business be paid to eligible dealers using their relative sales of fund shares as the principal factor in the allocation.