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June 2, 1973

Mr. Alan Rosenblat
Chief Counsel
Division of Investment Regulation
Securities and Exchange Commission
Washington D.C.

RECD S.E.C.

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Dear Mr. Rosenblat:

Thank you for your response to my letter addressed to President Nixon.

I do not wish to make this seem like a debate about the S.E.C.'s activities in the regulation of mutual funds but there are several points I would like to make.

You mentioned in your letter that the S.E.C. on several occasions has told Congress that mutual funds provide a useful investment for the small investor. Well unfortunately it is not this type of announcement that makes the financial pages. More often one reads that the S.E.C. feels the loads are unnecessary or excessive, the management fees are excessive or other derogatory statements that leave a negative impression in the minds of the financially unsophisticated public.

My main concern with regard to your activities has to do with the average man. The one who has never been in the market or who does not even know what a mutual fund is all about. Statistically I am referring to the majority of Americans. When asked to consider an investment in mutual funds his reaction might be, I understand that the S.E.C. is investigating them, or they charge to much commission, or mutual funds are no good. By scanning through the headlines of the financial sections of the papers I would have to agree with him.

You are so hung up on sales charge! Excessive as compared to what? The built in commissions in a life insurance policy, the bank that charges 10% interest and pays 5% to its savers. These are basically the savings vehicles available to the average man. The salesman who goes out on cold fund sales and spends 2 hours explaining and educating may wind up with a voluntary $25. per month sale. He will probably receive $1 commission for the sale after waiting 2 months. Most likely the investor will drop the plan after several months.

I suggest that the S.E.C. make a thorough study of who will be effected by its actions, how much effort is put into selling and will the average man buy no load before it makes pronouncements about commissions.

You refer to the mandate Congress has given you to regulate commissions.This would indicate a great cry from the investing public about commissions to have Congress so act. Several years ago the S.E.C. was going through the same sort of anti-fund activity on the Hill. Some industry people quized a number of influential Congressmen as to the extent of their letters from the public on funds and found few if any irate citizens. I am sure the mandate you mentioned is of your own creation.

I predict that your overaggresive actions will eliminate the fund industry as it is today. Other security type products will be sold that don't require your constant supervision such as variable life insurance and annuities. This is unfortunate because in the Life Insurance industry there is a total lack of supervision. Also the purest product of its type on the market will be gimmicked up eliminate unattractive parts of the fund sale such as the required statement of commission and to make it more attractive to the insurance company.

The one who needs to be protected, the unsophisticated investor, will have no voice or potent regulatory body to turn to without the S.E.C.

My advice to you would be: 1) don't believe that all salesmen are dishonest and serve no useful function, 2) a man who is on commission and earns over 6% is not necessarily immoral,be sure before you attempt to regulate, 3) don't believe the average man will buy a no load fund as he must be sold on long term investing, 4) finally, before your spokesmen make announcements that appear negative towards funds, they consider not only the need to let the public know the S.E.C. is at work but also what effect such an announcement has on investor reaction.

Sincerely,

Gerald L. McDonald

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