making my calculations as the one used by him and described in his testimony.

Before leaving this subject, it is important to point out that this shrinkage, which Dr. Goldsmith has unhappily designated as "a capital loss," is of course only a "quotational" shrinkage and is sometimes $1,500,000,000, sometimes $3,000,000,000, and that if one could assume that the value of shares will ever return to the 1929 price level the loss would not only cease to exist but would be transformed into a profit to investors in their over-all experience.

It is obvious that whatever the shrinkage may be at any given time, it is due largely to the relation of security prices to the comparatively higher prices existing in the late 1920's.

In view of this, the testimony of Mr. L. M. C. Smith on April 23 is quite surprising, when he stated that at least $1,100,000,000 and possibly as much as $1,500,000,000 of the capital shrinkage in investment companies was attributable to "mismanagement or looting or improper actions of managements in their own interests to the detriment of shareholders."

A careful examination of Mr. Smith's testimony throws no light on how it is possible to reconcile his statements with the facts established above in connection with shrinkage, unless it be, for example, that his figures include many like those given for Corporation Securities Co., of Chicago and Insull Utility Investments, Inc., in the amount of $211,000,000—companies which to our knowledge were not at any time investment companies.

Mr. Lawrence C. Vass, of the statistical staff of the Securities and Exchange Commission, submitted material dealing with several statistical comparisons which accompanied my testimony of April 12. Much of the material filed by Mr. Vass was in the realm of opinion on which men can reasonably differ. However, as to certain statements of Mr. Vass, which were allegedly statements of fact and which bear on my testimony, I feel it necessary to make the following comments.

In discussing some studies with relation to the possible behavior of an actual investment fund in comparison with the Standard Statistics Index of 90 stocks, I reached a conclusion that there was only one practical course by which an investor could even approximately parallel the behavior of the Index. I believed, and still believe, that this was the only course left to the investor, because any other would have required that he employ additional funds. Mr. Vass objects to this premise and offers a substitute completely inappropriate, in my opinion, namely, that the investor use some of his income for this purpose. We, as well as Standard Statistics, had granted the investor the right to keep his net income.

In connection with this problem, I stated, on page 5 of the statistical study which I submitted: "There was only one course left open to an investor, namely, to sell that portion of his rights which netted him such an amount of additional cash to enable him to exercise the remainder of his rights." Now, in the face of this, it seems quite extraordinary that Mr. Vass could have made the following remarks:

"Then we put a mathematician on the job and told him to find out for us the basis which Mr. Bunker must have used to obtain figures so contrary to this study. His answer is very interesting.

" 'Apparently, Mr. Bunker did not follow the correct procedure in making the approximations to the index which were presented to this committee. He apparently decided to make the railroad and utility stocks nearly as important in his fund as the industrial stocks. Now it just happens that utility and railroad stocks fared very poorly over this particular period as compared to the industrial stocks, as can be seen from the figures presented by Mr. Bunker. Any index which exaggerates the influence of railroad and utility stocks will tend to do poorly as compared to the Standard Statistics Index, and this apparently is the reason why Mr. Bunker's approximations show such very poor results from the attempt to invest a fund in the ninety stocks.' "

It seems extraordinary that Mr. Vass should have had to put a mathematician on the job to find out what was the basis of the figures I had submitted, for I had very clearly in my report explained exactly what the basis was. To repeat, the premise upon which I had based my calculations was, in my opinion, the only course left open to an investor, and this course I had very carefully described.

Anyone who wished to find out whether the calculations were correct or not did not have to deal in higher mathematics but only needed to follow the simple course that I had laid out. The easiest method of testing the accuracy of my statements was to have gone to Standard Statistics to find out how many changes were made in the capital structures of the companies in the Index. Whenever one was offered any rights to take up stock, one had to make the calculation as to how many of these rights could be exercised. The same holds true with regard to other types of capital changes. Nothing else was required except to continue the process throughout the entire period under review.

Mr. Vass apparently did not go to the Standard Statistics, which was the basis of our own investigation. He relied on the work of a mathematician who did not follow the very simple premise I had laid down, and upon manuals which apparently were incomplete in current volumes as to descriptions of the capital changes in the companies which composed the Index. The net result was that through the various deficiencies of the sources used by Mr. Vass he was totally unable to follow the simple premises laid down in my report.

To go further, a great deal of Mr. Vass' testimony seemed to throw doubt upon the fact that there were 333 changes in capital structure during the 14 years which I discussed in my report, or 186 changes over the 6-year period which Mr. Vass preferred to discuss. In passing, it is well to say that these 333 changes or the 186 changes—depending upon which period one wishes to select—were compiled from data obtained directly from the Standard Statistics Co., and in no sense derived either from guesswork or the casual inspection of manuals.

I can deal very briefly with the remainder of Mr. Vass' testimony, which consisted of criticism of two other statistical comparisons which I had used. I had made a study of all issues, other than those of investment companies, which were sold in the year 1929 and traced through their behavior in comparison with the behavior of portfolios of investment companies. This had been done, as I explained, because some 65 percent—according to the S. E. C.'s figures—of all investment-company issues had occurred in the year 1929. It seemed to me, therefore, a very interesting study to find out how the market values of these other issues, including those of some of the greatest American companies, compared in performance with the portfolios of investment companies in subsequent years. Mr. Vass' criticism of my study had to do with the fact that for the performance of investment companies I took the portfolio performance of the 49 investment companies whose portfolio record is available from the S. E. C.'s studies and whose performance had been chosen by the S. E. C. in their own statistical work as typical of the performance of the industry. I then compared this portfolio performance with the market values of non-investment-company issues made in 1929. Mr. Vass is critical of my use of the 49 companies and of the fact that I compared portfolio values with market values. With respect to the latter criticism, I can only say that this method of comparison is that which was established by the S. E. C.'s statistical studies and not by me.

Mr. Vass' further criticism was that I used as a basis of comparison the 49 companies which in his testimony of April 24 he described as "49 hand-picked companies" and "49 best companies in the country." This description of the 49 companies in Mr. Vass' testimony before the committee was a distinct surprise to me, since throughout the hundreds of pages of statistical reports of the S. E. C. from which my figures were derived there was no intimation whatever that the 49 companies which the S. E. C. had chosen were "hand-picked" or "the best." In fact, the method of choosing these companies was clearly set forth as follows in House Document No. 70, Appendix J, pages 839 and 840:

"The analysis includes virtually all companies satisfying these * * * conditions, companies being eliminated only because of insufficient data or because of the presence of extremely large bank debt. In order to obtain exactly the same group for analysis each year, companies for which data were unsatisfactory for 1 or more years during the 1930–35 period were entirely excluded. (Footnote 36: Only a few companies were excluded for this reason.) After these exclusions, a group of 49 companies remained."

Indeed, the chapter of House Document No. 70 which covers the performance record of closed-end companies and which starts on page 842 of that document completely confirms the propriety of my use of the 49-company average since it is entitled "The performance of the typical company."

The final criticism by Mr. Vass has to do with my use of a comparison of the performance of a list of 50 stocks recommended for investment by a leading investment rating service on September 30, 1929. with the average performance of investment companies over the subsequent years. Mr. Vass finds fault with the composition of this list inferentially suggesting that I chose it because it contained an undue proportion of utility stocks and railroad stocks which later performed badly marketwise. My studies showed that the average investment-trust performance was some 44 percent better over the next 6 years than that of this list of recommended stocks. I may say that this list was chosen because it was the only such list available as of this date which would constitute a thoroughly unbiased and sophisticated investment recommendation made by a disinterested and competent agency. The list was a highly professional investment recommendation; the purpose of citing it—or indeed citing any list—was simply to illustrate the fallacy of the S. E. C.'s contention that an unmanaged portfolio of stocks purchased in 1929 would have done better than the portfolio of the average investment company. The S. E. C. in endeavoring to prove this premise chose to use a list of stocks contained in the Standard Statistics Index, the impracticability of which use I had shown at some length. It is my opinion that any list of stocks actually recommended for investment purchase in 1929, and having regard to the classes of securities which were regarded as the best investment media at that particular time, would have shown a performance record very similar to the one shown by the list which I chose.

STATEMENT BY MAHLON E. TRAYLOR. PRESIDENT OF MASSACHUSETTS DISTRIBUTORS, INC., FOR THE RECORD OF THE HEARINGS OF THE SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY OF THE UNITED STATES SENATE

My name is Mahlon E. Traylor. I am president of Massachusetts Distributors, Inc., underwriter or general distributor of shares of Massachusetts Investors Trust, Supervised Shares, Inc., and Boston Fund, all open-end companies—i. e., having redeemable shares. This is my second statement on the subject of pricing, selling, and repurchasing shares of open-end investment companies. It is offered in support of my previous testimony, and in rebuttal to the testimony of Mr. Bane of the Registration Division of the Securities and Exchange Commission on this subject.

Judge Healy remarked near the close of the hearings that he failed to understand why I should come down to Washington, after making suggestions to the Securities and Exchange Commission in February 1940 as to how certain problems in connection with the pricing and selling of shares of open-end companies could be handled and after indicating a willingness that the Securities and Exchange Commission be given authority to regulate this phase of the open-end business and oppose such a plan and ask that instead the regulation of this phase of the business be undertaken by the National Association of Securities Dealers, operating under the Maloney Act. I would like to answer Judge Healy by asking him to review my testimony of April 17 in light of the statement contained in these pages, for I believe that in doing so he will find that I have made my position quite clear.

At the outset I wish to summarize my objections to a few points in Mr. Bane's testimony upon which it seemed to me he laid the greatest stress:

(1) The leading example of the "dilution" experienced by one particular company on September 5, 1939, is not a fair sample.

(2) The computation of annual "dilution," based on the experience of September 11 and 19, 1939, assumes a rise in the market during a single year which is fantastic.

(3) The picture of the "evils" of the two-price system is very much overdrawn and also fails to give fair credit to the industry for the progress already made in improving its methods and practices.

(4) The contention that shares are sold by investment companies only at the end of the day when the next day's price is already known is extremely misleading in that it rests entirely on the technicality of a mechanical clearing of sales at the close of business and ignores the business reality that shares are sold to investors throughout the day.

(5) The inferences from an extract read from a supplemental booklet describing Massachusetts Investors Trust is grossly misleading, and the entire testimony regarding this matter is wholly unjustified.

Mr. Bane quoted from my earlier testimony in which I said that he (Mr. Bane) "cited the example of the shares of an open-end company which on September 5 advanced in price from $5.60 to $6.70 and yet were sold to the public on the basis of a value of $5.60 even though their established and known value was $6.70 according to the Securities and Exchange Commission testimony.

"It is upon this illustration that the Security and Exchange Commission's case in the matter of so-called 'dilution' was very largely based. With all possible emphasis, I should like to say that this illustration is completely irrelevant as far as 90 percent or more of the open-end industry is concerned. It is also probably the most extravagant example the Securities and Exchange Commission could have used. To employ Mr. Banker's well-conceived analogy, this is most certainly a specimen and an exceedingly rare one at that, rather than a run-of-the-mine sample."

Mr. Bane then said in his testimony, "I want to emphasize to this committee that that example was in no sense a specimen, but it was a fair sample." To back up this emphatic statement, Mr. Bane's only supporting argument was that the price of the shares of the company used in his example advanced only $1.10 on September 5, 1939, whereas in the case of Massachusetts Investors Trust the advance was $1.22, and in the case of Boston Fund, Inc., the advance was $1.50.

In the first place, the $1.50 figure for Boston Fund is inaccurate; the correct figure is $1.21. In the second place, the illustration as given is meaningless because the $1.10 advance relates to a price of $5.60. (This is the most extreme percentage advance, excepting one, of the entire 78 companies.) In the case of Massachusetts Investors Trust the advance of $1.22 relates to a price of $19.68; and in the case of Boston Fund the advance of $1.21 relates to a price of $14.54. The average price advance for these two companies is some 7 percent (about the average for the industry) against 19.6 percent in Mr. Bane's example.

Now I submit the following facts so that the committee may judge for itself whether the example, upon which the Securities and Exchange Commission's case in the matter of so-called "dilution" was very largely based, is a specimen and an exceedingly rare one at that or whether it is a fair sample as Mr. Bane would have you believe:

(1) More than 90 percent of the assets of the open-end industry are those of companies whose investments are, on the average, diversified among some 40 to 60 individual stocks representing 15 or 20 different industries. They have what is known as a cross-section diversified portfolio of investments.

The company which Mr. Bane used in his example is a small specialty company whose entire investment portfolio consists of common stock holdings in seven steel companies.

(2) It will be recalled that September 5, 1939, witnessed a "war market" unprecedented in the history of the open-end industry. Steel stocks are perhaps the most volatile of all "war babies," and the sole investments of the company used in Mr. Bane's example consisted of holdings in seven steel stocks.

(3) Total assets of the diversified cross-section type of company are over $500,000,000.

Total assets of the specialty type of company used in Mr. Bane's example account for about 3½ percent of the industry total, and only a small proportion of the companies making up this percentage of the total is of such a volatile nature as the company in question.

(4) The average increase in the value of the assets of the industry on September 5, 1939, as a result of the market advance was in the neighborhood of 7 or 8 percent.

The increase in the value of the assets of the company used in Mr. Bane's example was 19.6 percent. Of the entire 78 companies to which reference is made, only one experienced an increase in the value of its assets of more than 19.6 percent. That company was another specialty company, the investments of which consist entirely of common-stock holdings in 12 railroad equipment companies. In that instance, the increase amounted to about 20 percent.

(5) The amount of so-called "dilution" of shareholders' interests for the industry on the abnormal and unprecedented occasion of September 5, 1939, was, as I have previously stated, approximately three-tenths of 1 percent.

According to Mr. Bane's testimony, the company used in his example experienced a "dilution" of shareholders' interests of 9.86 percent, or more than 30 times the percentage amount of so-called "dilution" for the industry as a whole.

I said the example was completely irrelevant with respect to 90 percent of the industry and that it was probably the most extravagant example the Securities and Exchange Commission could have used. I called it a "specimen" and an exceedingly rare one at that. Replying to my testimony, Mr. Bane said he wanted to emphasize to the committee that the example was in no sense a specimen but that it was a fair sample.

In my previous testimony, I sought to avoid any such discussion of other people's business for reasons which can be readily appreciated. I did not attempt to defend or justify what occurred in this isolated instance. The problem involved is one which is well recognized in the industry, and it is believed to be one which the industry can solve. Moreover, as I have indicated elsewhere, steps have already been taken to find satisfactory solutions to problems such as this. And may I remind you that the problem became acute only as a result of the abnormal unprecedented war market on September 5, 1939.

When I testified before the committee, I merely endeavored to discuss the matter of so-called "dilution" in a practical and realistic manner as it affects nine-tenths of the industry. I did this in such detail because Mr. Bane's initial testimony on the subject, through the use of rare and extreme examples and in emphasizing large dollar amounts of "dilution" without showing these amounts in their proper perspective by relating them to the value of the affected shareholders' interests, seemed to me to create an erroneous and misleading impression of the seriousness of the matter.

The second point in Mr. Bane's testimony on which it seemed to me he laid great stress has to do with my testimony concerning the so-called "dilution" which, according to Mr. Bane's assertion, took place on September 11 and 19, 1939.

Now Mr. Bane took exception to my corrected statement that the "dilution" on these 2 days, September 11 and 19, amounted to thirty-five one thousandths of 1 percent. (You will recall that Mr. Bane represented to the committee that no one could contend that there was anything abnormal about those 2 days—despite the fact, as I pointed out, that excepting the war market on September 5, there was only one day during the entire year 1939 and 1940 to date when the stock market advanced more than it did on either of those days.) My figure of thirty-five one thousandths of 1 percent was computed on the basis of affected shareholders' interests being some $500,000,000, whereas Mr. Bane says the amount was only $408,000,000 because all the companies did not sell shares on the 2 days in question, and on that basis the "dilution" figure comes to forty-three one thousandths of 1 percent. I am unable to reconcile this basis of figuring to my own calculations, but I will nevertheless accept Mr. Bane's figure. In that way I am able to say, on the authority of the Securities and Exchange Commission, that the so-called "dilution" of affected shareholders' interests on those 2 exceptional days of September 11 and 19, 1939, was forty-three one thousandths of 1 percent. I would like to repeat that: the Securities and Exchange Commission says in effect that on 2 days when the market staged its sharpest advances excepting two in a period of a year and a quarter, the "dilution" of affected shareholders' interests was forty-three one thousandths of 1 percent.

Now we come to what seems to me to be one of the most remarkable bits of testimony that has been presented to this committee. I said that for the 2 days, September 11 and 19, the so-called "dilution" on the Securities and Exchange Commission's basis of figuring was thirty-five one thousandths of 1 percent. (As indicated above, I will accept the correction, making it forty-three one thousandths of 1 percent, but on this particular point I must stick to the thirty-five one thousandths of 1 percent figure because that is the figure from which Mr. Bane built his remarkable testimony.)

I said further—and I grant that my language may be somewhat ambiguous and therefore subject to misinterpretation—that on an annual basis this would come to five one-hundredths of 1 percent—and if doubled to take care of a few semiabnormal days (as distinguished from such abnormal days as September 11 and 19) it would come to ten one-hundredths of 1 percent—and if tripled to take care of a few more, it would come to fifteen one-hundredths of 1 percent.

That all made fair sense to me when I offered it in testimony and it still does, and I will explain why. But first let me dwell briefly on Mr. Bane's astounding testimony. He said that I assumed 300 business days in a year; so I multiplied the "dilution" figure on the 2 extraordinary days of September 11 and 19 by 150 to obtain an annual "dilution" figure. Then Mr. Bane said that because my arithmetic was bad and his was good, the annual "dilution" figure was 5.25 percent or $26,400,000, and that, following my example, if doubled to take care of a few semiabnormal days, it would be 10.56 percent or $52,800,000, dan if tripled to take care of a few more, it would be 15.84 percent, or $79,200,000.

Anything as remarkable as this, however, would seem to call for rather careful analysis. This I have attempted to undertake, and these are my findings: If we multiply 2 days' "dilution" by 150 to arrive at an annual figure, we must (in order to visualize the circumstances under which is "dilution" might take place) multiple the number of points which the stock market advanced on these 2 days by 150. In other words, if we are to project the "dilution" for 2 days on an annual basis, we must to be consistent also project the corresponding advance in the stock market on an annual basis. Well, the advance for those 2 days, September 11 and 19, 1939, amounted to 8½ points in the Dow-Jones

Average of 30 Industrial Stocks. On an annual basis then, to be consistent with Mr. Bane's "dilution" figure, the Dow-Jones Average would have to advance 4¼ points every day, or 1,275 points during a year of 300 business days. Thus the only basis on which any possible validity could be attached to Mr. Bane's "annual dilution" figure is to have the stock market, as measured by the Dow-Jones Average, advance 1,275 points a year.

Of course, that makes the whole idea very farfetched, particularly when you consider that since the low of the depression in 1932, this Average has managed to register a net advance of only about 100 points, and in the greatest bull market in history it took about 10 years to register a net advance of some 300 points to the all-time peak of 381 in September 1929.

As to my own figures, I simply tried to indicate in a general way a reasonable estimate of what the so-called dilution might come to in the course of a year which would include two such abnormal days as September 11 and 19 and a few more semi-abnormal days for good measure. I first gave recognition to the fact that September 11 and 19, 1939, were abnormal days. Then I estimated on the basis of available statistics on sales volume and normal market advances over a year's time what the theoretical dilution might be. This came to about five one-hundredths of 1 percent. Then, on allowing for the semi-abnormal days, the figure came to about ten one-hundredths of 1 percent—and then for good measure I increased it again to arrive at a final figure of fifteen one-hundredths of 1 percent which, as I remarked earlier, seemed to make fair sense when I offered it in testimony, and I still think it does. (I am attaching as exhibit A an explanation of the basis of my own figuring. This may be placed in the record or not, in accordance with the committee's wishes in the matter.)

There is one other point on which Mr. Bane placed great stress. This has to do generally with what he calls the evils of the two-price system. His lengthy testimony on this subject is too confusing to a proper understanding of the matter and so overdrawn in its implications that I shall not even attempt to answer it point by point. At the beginning of my previous testimony I said I believed that there is a widespread misconception of what the problems really are and how the pricing system actually works. I can only ask that my previous testimony on the subject, on which I stand without qualification, be reviewed in the same spirit of carefully considered reasoning in which it was given.

In the case of Massachusetts Investors Trust—and we seem to be the ones who are being criticized, the offering of shares was withdrawn at 4 o'clock in the afternoon of September 5 when the new price was established and orders received after that time were confirmed at the new higher price so that in our case there were not two known and established prices at the time sales were being made. We took this step in accordance with a policy which we had adopted a year and a half earlier as a means of meeting just such a situation as developed on September 5, 1939, and which was outlined in a letter to our dealers, dated April 4, 1938. Contrary to Mr. Bane's understanding as expressed in his testimony, September 5, 1939, was the fourth occasion, not the only occasion, on which we stopped selling when the market registered a sharp advance.

Incidentally, it was from a two-page enclosure with this letter outlining the method for handling transactions in Massachusetts Investors Trust that Mr. Bane quoted two short paragraphs in such a way as might leave a misleading impression. I will discuss this later, but with reference to the point under consideration, I want to quote from our dealer letter of April 4, 1938 as follows:

"The fluctuations of the stock market during recent weeks have caused us to give further thought to the problem of accepting orders for shares of Massachusetts Investors Trust in the event of an extreme rise in prices. The enclosed 'Approved Practices for Transaction of Business in Shares of Massachusetts Investors Trust,' copy of which has already been sent to you, states in the third paragraph that 'in the event of extreme fluctuations in security prices, we may consider it necessary at some future date to decline to accept orders for shares on the present basis of pricing until an offering price reflecting a new liquidating value may be established.'

"Rather than leave the question of whether or not we will accept orders on any given day in suspense, we feel that for the convenience of dealers it is desirable to establish a rule of procedure on this question. Therefore, until further notice, in the event the Dow-Jones Average of 30 Industrial Stocks should make a net advance for the day of $5 or more, no orders for shares of

Massachusetts Investors Trust will be accepted by us at the old offering price after 4 p. m. Boston time on weekdays, or 1 p. m. Boston time on Saturdays.

"At present a new offering price reflecting any change in the 'liquidating value' is established 1 hour after the close of trading on the New York Stock Exchange each day. This new offering price, however, does not become effective until 10 a. m. Boston time the following business day. In the event of an advance of $5 or more in the Dow-Jones average of 30 industrial stocks, all orders received after the determination of the new price at 4 p. m. Boston time weekdays and 1 p. m. Boston time Saturdays will be held and confirmed when the new or higher price becomes effective at 10 a. m. Boston time on the following business day."

I want to emphasize that our contribution to the adoption of constructive policies with respect to the pricing system did not consist of writing letters to the Securities and Exchange Commission, suggesting various ways by which it might be advisable "to lock the barn after the horse was stolen." On the contrary, we wrote letters to dealers, advising them of the adoption of what we believed to be constructive policies in the interests of sound business practice. And we did this despite the fact that Massachusetts Investors Trust was less affected by dilution than the industry as a whole—as witness the infinitesimal dilution figures which I have submitted in previous testimony.

With further reference to Mr. Bane's discussion of the evils of the two-price system, let me try to restate briefly what the situation has been.

In past years, the existence of two known prices was only an incidental result of the mechanics employed to insure a firm price at which shares could be offered for sale. No serious problems developed and under the conditions which prevailed there was seldom even opportunity for abuse. As far as the two-price system being used as a principal selling argument in the sale of cross-section open-end companies, I stand without qualification on my previous testimony and that of my associate, Mr. Sanders.

In that testimony I did not attempt to defend any evils, nor do I now. I merely tried to present realistically in light of many years' experience what the situation had been, Mr. Bane's testimony notwithstanding. To simplify my exposition, I discussed the two aspects of the matter separately. One aspect concerns the so-called dilution that might occur from the mechanical operation of the pricing system—that is, the sale of shares at a fixed price which does not necessarily reflect the theoretical value of the shares at the exact moment of sale. I showed that the effects of any resulting dilution of shareholders' interests, taking the industry as a whole, were negligible, although I was not unmindful that in isolated cases the effects could be more serious.

The other aspect concerns the abuses by way of riskless trading, etc., by distributors, dealers, and insiders which the pricing system made possible. In many respects, such opportunities for abuse are similar to the opportunities for the free riding abuses which have existed in connection with the issuance of Government bonds. I explained that it was the abuses of the pricing system which a small fringe element may have practiced to unethically further their own selfish ends and that while relatively unimportnat, though nonetheless deplorable, they could be eliminated entirely by the imposition of a few simple rules. An outline of such rules was contained in our letter to Mr. Lund of the Registration Division which Mr. Bane read into the record of this hearing. These rules represent the basis on which my company has successfully met the problems which have come up. As evidence of the manner in which we have successfully met these problems, let me cite the experience of my company on September 5, 1939—and this was before the Securities and Exchange Commission had ever indicated any serious interest in the matter.

An analysis of that day's transactions, as compiled by the State Street Trust Co. acting independently as transfer agent for Massachusetts Investors Trust and Boston Fund, revealed the following: Out of a total of 139,975 shares of Massachusetts Investors Trust sold on September 5, 1939, only 90 of these shares were redeemed on the following day (September 6) at the new higher price and only 228 of these shares were redeemed on the day after that; out of a total of 40,952 shares of Boston Fund sold on September 5, 1939, 125 of these shares were redeemed on the following day (September 6) and none were redeemed on the day after that.

With respect to "riskless trading" by insiders, I wish to make it clear that as far as our operations are concerned—and I believe this is typical of most important companies—no such practice has ever been condoned, and the official offering prospectuses of the investment funds we sponsor clearly state that officers, directors, and employees of the investment funds and of the general distributor are permitted to purchase shares only for personal investment so that no trading in the shares could be undertaken in any event. Incidentally, on the occasion of the extreme price rise of September 5, 1939, no such person described above took advantage of the price rise that day to buy any shares of any of our three companies. It may be of interest in passing that officers, directors, and employees and their families have an aggregate investment in shares of the funds under our sponsorship of more than one-half million dollars.

I have described in this and previous testimony the situation in past years. September 5, 1939, indicated the need for further refinements in the pricing system and since that time many of the important companies in the industry have taken steps to improve their methods in light of the experience gained on that day. In the case of Massachusetts Investors Trust, a new pricing system was adopted, effective January 2, 1940. Under this system, shares are priced twice during each day excepting Saturdays. One price is established on the basis of closing market prices and remains in effect only until a new price is established at 1 o'clock the following day. The price established at that time holds good until the next price is established after the close of the market that day. At no time are there two known prices in existence at the same time. And by pricing the shares both in the middle of the day and at the close, the price at which shares are sold reflects as closely as is possible and at the same time practical the value of the shares at the time purchase orders are taken. We believe this pricing system minimizes the opportunity for abuse and with the imposition of a few simple rules, any such opportunities can be completely eliminated. Moreover, we believe that it will effectively serve to reduce possible dilution to a practical and negligible minimum—at least in the type of company such as Massachusetts Investors Trust.

One last point on this subject—Mr. Bane said that he believed the committee had received an entirely erroneous and misleading impression from Mr. Sanders' and my testimony to the effect that shares of open-end companies are sold all during a business day. "The cold fact is," he said, "that the trust makes sales in practically all cases at one time only during the day to the distributor, and that time is always after the two prices have been determined and are known." The absurdity of introducing this technical point was suggested by the confusion it seemed to create in the minds of those who heard the testimony. Obviously, the trust or investment company does not sell shares to investors throughout the business day. As a matter of practical convenience, the underwriter clears with the trust but once a day (or twice a day in the case of Massachusetts Investors Trust which establishes a new price twice a day). Regardless of the mechanical technicalities, however, the fact remains that shares are sold to investors all during the day and, contrary to Mr. Bane's flat assertion, dealers send orders received in to the distributor all during the day. For example (and as a conservative estimate) I would say that a third of our volume came in by 12 o'clock noon on September 5 last.

By introducing this technicality, Mr. Bane seems to imply that the trust or investment company remains entirely in ignorance of the volume of sales until the close of business, and therefore no opportunity exists to offset the sale of additional shares by the purchase of portfolio investments at a market level reflecting the price at which shares are sold.

In my previous testimony, I explained that while actual cash from the sale of new shares may not come in during the day, execution of orders amounts to the same thing from a bookkeeping standpoint. The simple commonsense point is that the management of the investment company is vitally concerned with the volume of sales during the day because of management-policy considerations, and I can assure you they make it their business to know just as much as the distributor does about the volume of sales during the day. In fact, in most cases the distributor and the issuer are in effect one and the same and it is hardly reasonable to assume that one hand doesn't know what the other one is doing.

The facts are, as I have stated, that sales are made during the day—dealers do report sales during the day—and trust managements do know the trend and volume of sales during the day and they are therefore in a position to do whatever seems advisable by way of offsetting the sale of shares by additional portfolio investments, regardless of the mechanical technicalities involved in the clearing of business.

I wish now to dwell just briefly on some of the other points in Mr. Bane's testimony. In his entire testimony, there is but one point with which I fully agree. That is where Mr. Bane says the extent of "dilution" is a matter of degree. That is one of the principal things I have been trying to impress upon the Committee. I have, therefore, taken pains to prove that the degree is of negligible proportions for the bulk of the industry and that with further improvements now being adopted, the degree can be reduced to a practical and negligible minimum.

Now Mr. Bane made quite a point of the fact that sales of Massachusetts Investors Trust on September 5, 1939, were some 92 times the average daily sales during the year. I would like to remind the committee that, as Mr. Sanders told you, we go through long periods of dullness—sometimes for months when because of uncertainties and fears, investors are hesitant to act. This has been particularly true in the last year or so, and of course the occasion of the war market of September 5 was unprecedented in the history of our business.

Let me illustrate the exaggerated implications of Mr. Bane's statement. Assume that a housewife buys 1 pound of sugar a week, or 52 pounds a year. On a daily basis, this amounts to about one-seventh of a pound. Along comes the outbreak of war in Europe and, wisely or foolishly, like many other housewives she calls up the grocer and buys 15 pounds. That is over 100 times her theoretical daily purchase, but certainly that is no reflection on how the grocer conducts his business. But disregarding the war influences, the implications are still highly exaggerated. Owing to circumstances over which we have neither control nor influence, we do no business to speak of on probably half of the business days in a year such as 1939 and there is nothing the S. E. C. or anyone else can do to alter that situation. For this reason, any comparison of any one day's actual sales to a purely hypothetical "average daily sales volume" lacks any significant meaning.

I have shown the extent to which so-called "dilution" affected the interests of Massachusetts Investors Trust shareholders, and I might add the effects with respect to Supervised Shares, Inc., were even more negligible, if that is conceivable. But Mr. Bane has also made reference to Boston Fund, Inc. I have explained in detail in earlier testimony why I believe Mr. Bane's hypothetical conclusions concerning "dilution" to be invalid. Let me give you a concrete example using Boston Fund: From Mr. Bane's testimony, you might be led to believe that the interests of shareholders of Boston Fund had been seriously "diluted" during the month of September 1939 because of all the thousands of shares of the Fund which were sold during the month "at less than their true value."

Now bearing in mind what have said about the invalidity of Mr. Bane's hypothetical conclusions, here is how the existing shareholders of the fund fared during that month. With apologies to Mr. Bunker, the Standard Statistics' 90 Stock Index advanced 16.4 percent during the month of September. (You may recall from S. E. C. testimony, this market average is supposed to reflect the performance of a diversified cross-section of representative stocks like a fully invested fund but with no new money coming in and no management problems.) I would also like to point out that this advance is for the short period of one month in a sharply rising market. As I have said, this market average advanced 16.4 percent. During the same period, the value of shares of Boston Fund increased 17.2 percent.

I do not know what conclusions Mr. Bane will draw from this, but my own conclusion is that perhaps his testimony has tended to exaggerate the seriousness of the so-called "dilution" problem. I might add that my conclusions are not based merely upon a set of statistics. I have a deep personal concern for the interests of shareholders as, among other reasons, I have been the largest shareholder in the company for several years, owning some 10,000 shares with a market value of around $160,000.

Mr. Bane's quotation (to which I have previously referred) from an instruction sheet enclosed with a letter to our dealers, dated April 4, 1938, covered in matter-of-fact language an incidental phase of business routine. In order to avoid misunderstandings between our company and the dealer, and between the dealer and his customer, we had developed an instruction sheet outlining how orders were to be placed, including conditional orders, and at what price under various circumstances orders would be executed. The fact that our procedure assured executions at the best price is certainly no reflection upon that procedure. There might, however, have been some reason to complain if we had issued no explicit instructions and then confirmed orders on a price basis favorable to ourselves as was the case in one example cited by Mr. Bane by which he sought to indicate how unethically certain people in the industry operated.