12 Marlborough Street
Boston, Massachusetts

March 11, 1968

United States
Securities and Exchange Commission
Washington, D.C. 20549

RE: Securities Exchange Act of 1934 Release No. 8261

Dear Sirs:

I am availing myself of the opportunity you have offered to comment on Release 34-8239 since, to my knowledge, there have been no comments from the two areas most drastically affected: 1. the registered representative, 2. the small investor. In theory, the SEC has as an objective the protection of those highly populated areas. The thrust of the recommendations made to date appears to me to be diametrically opposed to the objective.

Since you have had reams of statistics, I shall limit myself to a rough hewn model to illustrate my reasoning:

On a given day a NYSE member firm may receive a $1,000,000 order from a mutual fund for stock of General Motors. The order is executed and the firm has made $10,000 or $20,000 if they were acting for the sellers too.

The mutual fund might have taken orders from 40 broker-dealers for 2,000 customers establishing $500 voluntary accounts. The fund has prepared vast amounts of literature, kept good relations with the 40 firms, and now must keep records for all the customers and dealers in addition to managing the portfolio. It has made $25,000.

Each of the broker dealers has 50 salesmen who each brought in one $500 account. The orders have to be placed, confirmed, billed and an account established for each customer and salesman. The dealer earns $650.

Each of 2,000 salesmen has direct mailed, telephoned and gone out to see several prospects, explained the stock market, the advantages of diversification and full time professional management, matched the objective and capability to the fund and obtained a $500 application. He has earned $15.

The NYSE member firm's work and responsibility have been absurdly limited and simple compared to the underlying effort and continuing responsibility that underlie the $1,000,000 order. It is so apparent that the big board firms are willing to negotiate a small reduction on large orders but they are not really prepared to lose anything.

If the member firm reduced commissions 25% and kept all the remainder, they would be 25% ahead of the present situation when they must remit 50% to designated dealers. In addition, they would destroy many dealers and representatives driving the customers into the arms of the brokers who then plan to raise the odd lot and low volume commissions to replace the 25% reduction on large trades.

My own mathematics indicate that the NYSE or ASE firm should receive 25% of the commission, 25% should go to the mutual fund, 25% to the broker-dealer, and 25% to the registered representative. In this way, the whole system would be strengthened and the customer would in effect have his sales charge cut by having the refund to his fund. At the same time, the customer would have a better chance of learning about mutual funds as opposed to annuities, government bonds, and savings accounts by having better paid registered representatives.

The mutual fund is the only sensible stock market investment for the small investor and his best introduction to it is from the registered representative of the broker dealer who takes an interest in his situation. Due to genes, environment and opportunity, there will always be a lot of small investors and those willing to be registered representatives. They both need your protection and all the proposals I have seen will serve them up to the wolves.

Sincerely,

Bayard T. Read