I will read another one:

The new price will be $6. We will sell at $5.74 until midnight our time at this price—

That does not indicate that they were taking precautions to prevent the shareholders from being diluted on an unusual day like September 5.

The fact is that instead of making an effort to protect the interests of those whom they were supposed to represent in a fiduciary capacity, who paid them a commission in connection with the purchase of their interests, who were paying them a continuing management fee for looking after their interests, these fiduciaries and underwriters indulged in an orgy of selling with full knowledge that it was working to the detriment of their shareholders. They obtained individual profits from such sales at the expense of their shareholders. Furthermore, many of these trusts had stated in their prospectuses that if there were any unusual fluctuations in market values during a day they would stop selling or change the price in order to protect the interests of such shareholders, which is I might say, a direct admission that there might be injuries to the shareholders by not changing the price.

Senator WAGNER. Mr. Bane, perhaps this is the place where I should read a letter from Mr. Traylor in relation to the figures which you have just quoted and as to which he desires to make a correction. I received it yesterday, but I did not know that this matter was going to be referred to this morning. May I read it and then you can comment on it if you like [reading]:

DEAR SENATOR WAGNER: If it is permissible, I would like to take this means of filing a correction of a misstatement in my testimony of Wednesday, April 17, 1940, before the subcommittee of the Senate Committee on Banking and Currency, on the subject of pricing, selling, and repurchasing shares of open-end investment companies.

In my testimony I stated that the so-called dilution figure of $176,000 for the 2 days—September 11 and September 19, 1939—amounted to 0.00035 percent, or about thirty-five ten thousandths of 1 percent of the total value of shareholders' interests. Upon rechecking, I find that due to an error in transposing decimal figures to percent figures this is an inaccurate statement. The correct statement should read as follows: "In relation to the value of shareholders' interests (some $500,000,000), the so-called dilution figure of $176,000 for the 2 days picked by the S. E. C. (September 11 and 19, 1939) amounts to 0.035 percent, or about thirty-five one-thousandths of 1 percent."

These figures are arrived at by dividing the amount of so-called "dilution" ($176,000) by the dollar value of shareholders' interests (some $500,000,000). The quotient of this division is 0.00035. Expressed in percent, it becomes 00.035 percent, or thirty-five one-thousandths of 1 percent.

Although the margin of my error is rather large, I trust you will agree with me that the corrected figure of thirty-five one-thousandths of 1 percent is of such negligible proportions that it is of no importance as a factor affecting shareholders' interests.

Mr. BANE. I agree with all except the last sentence.

Senator WAGNER. The "negligible" part?

Mr. BANE. Yes, sir. Of course I did not know when I took these figures that you had anything of that kind. I was talking of Mr. Traylor's testimony as it was in the record.

Senator WAGNER. Now we have both sides.

Mr. BANE. Although Mr. Traylor criticized the selection of September 5 as being a highly abnormal day as a basis for selecting representative figures to illustrate dilution, it appears that that day would be an excellent illustration of the actual practice of the managements of these trusts in giving effect to the representations and implications made to the investing public in connection with price changes. Of the 78 trusts answering the questionnaires, 43 had stated or implied in their prospectus that they would alter the price or stop selling upon an unusual market fluctuation.

Of the 78 trusts covered by the study to which I referred in my previous statement, approximately 60 did not change their price during the market day of September 5, 1939, and included in this 60 are Massachusetts Investors Trust, Boston Fund, and Supervised Shares, distributed by Mr. Traylor's company. While it is true that these three trusts did stop selling at 4 p. m. due to the limitation imposed on their method of offering, the dilution to these three trusts even with this limitation, amounted to $233,876 on that day. Suffice it to say that this was the only time in 15 years, so far as we have been able to learn, that Massachusetts Investors Trust stopped selling because of an unusual market upswing. There may be others, but, if so, I do not know of them.

Mr. Traylor would have you believe that the evils resulting from this two-price system occurred only in a fringe of the industry. This industry is probably peculiar among all those in this country. There is a fringe all right, but in this industry the fringe is the part that attempts to protect the interests of its shareholders. Of the 78 trusts, but a small number, specifically 8, made any real effort during this 3 weeks period in September 1939, to which I have referred, to prevent their shareholders' appreciation in value from being given away for the sake of increased profits to the distributors and managers through increased sales and resultant underwriting commissions and management fees. In other words, in this industry, you do not have to protect the industry from the fringe, but the fringe must be protected from the industry.

In an example that I gave in my previous statement, the value of each outstanding share in a trust rose from $5.60 to $6.70, but when the sales made on the basis of that rise were stirred into the trust, each share, both old and new, was worth only $6.04, causing a loss to the old investor in 1 day of approximately 66 cents per share, or 9.86 percent of his asset value which had accrued to him prior to the sales of the new shares. The investment trust to which I referred has never earned 9.86 percent net annually on the value of its assets in the course of its whole existence.

In my statement before you on April 5 I purposely, and I think properly, refrained from using names; however, I should like now, for the information of the committee, to show just what happened as a result of this two-pricing method in the case of three trusts as shown by the information furnished to us by those three trusts. Now, I am sure you know that Massachusetts Investors Trust, Boston Fund, and Supervised Shares are in the investment trust business as open-end management-type investment trusts and that Massachusetts Distributors, Inc., sells the shares of these trusts. Witness Secretary Adams, Dr. Sprague, Mr. Griswold, Mr. Traylor, Mr. Amory, Mr. Sanders, Mr. Curtis, Mr. Motley, Mr. Dewey, and others who have appeared before you as the representatives or on behalf of these trusts.

The total sales in the 1-year period from September 1, 1938, to August 31, 1939, by Massachusetts Investors Trust were $8,921,894. The total sales on 1 day, September 5, 1939, were $2,730,912. This means that the sales on that 1 day were approximately 92 times average daily sales during the subject year.

And that is in spite of precautions taken to prevent dilution of the trust.

In my testimony on April 5 I stated that the sales on September 5 for the industry were 83 times average.

Now let's take up the number of hours—two known prices exist for the shares of these companies. Prior to January 2 of this year—and Massachusetts Investors Trust has been in business for 15 years—there never was a time, so far as I was able to learn, when two prices weren't known or determinable for as long as 19 hours, with one or two exceptions. On September 5, 1939, two prices were available for only about 1 hour, as I previously explained. Of course on September 11 and September 19, which days we also covered in the questionnaire, there was no shut-off at 4 p. m. Two prices, known and determined, were held for 19 hours.

The information furnished by the questionnaire returns filed by Massachusetts Investors Trust indicates the following: The net asset value of each outstanding share at 10 a. m. on September 5, 1939, was $19.51. The underlying portfolio increased sufficiently in value, so that at 3 p. m. each of these same outstanding shares had a net asset value of $20.73. The trust sold 139,975 shares at $19.51 per share to Mr. Traylor's firm at a time when it knew that the actual value was $20.73 per share. Thus the trust received $1.22 less than actual asset value for each share sold to the underwriter or distributor. Principally because of this price attraction 92 times as many shares were sold as usual. The trust was diluted $170,789.

Now let's take September 11, 1939. The asset value per share at 10 a. m. was $20.86. The asset value of each of those shares at 3 p. m. was $21.17, or an increase of 31 cents per share. The trust sold 10,916 shares worth $21.17 per share to Mr. Traylor's firm at $20.86 per share, when they both knew that the asset value of the trust was $21.17.

Senator WAGNER. What happened to those shares after they were purchased by Mr. Traylor's company?

Mr. BANE. He filled the orders that he had obtained during the course of the day.

The public had had 19 hours in which to purchase these from Mr. Traylor's firm at the lower price.

Now, let's take September 19, 1939. The asset value at 10 a. m. was $20.44 per share. At 3 p. m. these same shares were worth $21.05 per share. Thus Mr. Traylor bought these shares for 61 cents less than their actual value. The trust that day sold 13,220 shares to his firm and was diluted $8,064.

Senator WAGNER. Do you happen to know what other shares were sold on that day?

Mr. BANE. What other companies sold shares?

Senator WAGNER. No. You say Mr. Traylor's firm bought 13,000 shares.

Mr. Bane. Mr. Traylor was the only person that could buy from the trust; that is, his firm. And then he distributes as the distributor among the dealers who sold all over the country.

Let me briefly say that Supervised Shares on September 5 sold shares worth $9.93 for $9.41. On September 11, it sold shares worth $10.21 for $10.08 and on September 19 it sold shares worth $10.19 for $9.90.

As to Boston Fund, on September 5 it sold shares worth $15.75 for $14.54. On September 11 it sold shares worth $16.36 for $16.00 and on September 19, it sold shares worth $16.17 for $15.55.

I would like to read an extract from Massachusetts Investors Trust's prospectus, dated January 16, 1939, and used throughout last last year (reading):

> Since a new offering price is determined and known while the previous offering price is still in effect, the general distributor, dealers and investors may defer purchasing shares at the then effective price when it appears that the new price will be lower, and conversely, may purchase shares at the then effective price when it is known that the new price will be higher. All purchasers thus have and have had the opportunity of placing orders after there has been an increase in the net asset value of the shares and before the higher net asset value becomes effective, thereby securing the advantage of the lower public offering price then in effect. To the extent that the net asset value determined but not in effect exceeds the net asset value in effect, there results a diminution pro rata of the net asset value of the outstanding shares when the distributor places its order with the trust, which occurs immediately prior to the time when the effectiveness of the then net asset value and public offering price expire.

When Mr. Traylor says that they do not dilute, he must not be talking about a diminution pro rata of the net asset value. He admits that there is a pro rata diminution, but he denies dilution.

Approximately this same language appeared in the prospectuses of Boston Fund and Supervised Shares and a similar statement appears in the prospectus of practically all other such trusts. This explanation of dilution in such prospectuses is no hypothetical assumption or a mere theory, as Mr. Traylor says. It is a cold fact. I told you in my previous statement that certain companies told dealers how to take positions and execute orders in a manner that would result in diluting the trust.

Senator Wagner. What is the point that is intended to be emphasized in that prospectus?

Mr. Bane. I am sorry if I read it too fast, Senator. But he intended to emphasize——

Senator Wagner. What do they intend to convey?

Mr. Bane. I read it to you, Senator. What they intend to convey to tell their purchasers, those to whom they are offering, is that the shareholders are diluted, and that after the purchaser gets in he will be diluted. It cannot mean anything else. Did I read it too fast?

Senator Wagner. What was the reason for that particular advice? That is what I am trying to get.

Mr. Bane. That advice, Senator, was never given a prospective purchaser until after the passage of the Securities Act of 1933. After the passage of the Securities Act of 1933, with its requirement for disclosure and its sanctions for failure to disclose material matters, this was put into prospectuses so as to warn a man that when he got in there he was subject to a diminution pro rata of the net asset value.

Senator Wagner. Would not that discourage purchasers?

Mr. BANE. I doubt it, Senator, because I question what this language really means. I will read it again [reading]:

There results a diminution pro rata of the net asset value of the outstanding shares when the distributor places its order with the trust, which occurs immediately prior to the time when the effectiveness of the then net asset value and public offering price expire.

That means he buys from the trust just before the new price goes into effect. You say that will discourage sale——

Senator WAGNER. I did not say it. I asked you the question.

Mr. BANE. I mean, you asked if it did. I question what that language means to the average type of person to whom these shares are offered. You do not call it dilution, but you read that to the average type of person to whom the share is offered, and the trust can still claim a disclosure, but I question whether many of them really understand the significance of it.

Does that answer your question, sir?

Senator WAGNER. Yes.

Mr. BANE. I would like to offer in evidence a copy of a letter circulated by Massachusetts Distributors, Inc., dated April 4, 1938, addressed "To all members of Massachusetts Investors Trust Selling Group," and I would like to call attention particularly to paragraphs numbered 4 and 5, which I would like to read. These are the instructions of the distributor of these shares to the dealers [reading]:

4. Orders received between 3 p. m. of one day and 10 a. m. (Boston time) of the next business day which specify no price are executed at the old or new price, whichever is lower. Orders received prior to 3 p. m. which specify "at market" or the price then in effect, are immediately executed at that price.

5. Conditional orders will be accepted which specify "at market or better". Such orders will be executed when the next day's price is known and will be executed at the old or new price, whichever is lower. Conditional orders will also be accepted to be executed "on next advance" if those words are used in sending the order to us. Such orders will be executed when a new price of M. I. T. has been computed which shows an advance and such orders will be executed prior to such advance; that is, at the price in effect immediately prior to the advance.

(The complete letter from Massachusetts Distributors, Inc., to all members of Massachusetts Investors Trust Selling Group, dated April 4, 1938, is as follows:)

EXHIBIT A

MASSACHUSETTS DISTRIBUTORS, INC.,
*Boston, April 4, 1938.*

IMPORTANT NOTICE

*To All Members of Massachusetts Investors Trust Selling Group:*

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 o'clock p. m. Boston Time on weekdays, or 1 o'clock p. m. 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. Bostom 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.

On days of such an extreme fluctuation, orders to be confirmed at the old or lower offering price *must be received* by one of our *branch offices* or by our *office in Boston prior to 1 hour after the close of trading* on the New York Stock Exchange, when the new "liquidating value" is determined.

On days when the Dow Jones Average of 30 Industrial Stocks rises less than $5 there will, of course, be no change in the present method of confirming shares.

MASSACHUSETTS DISTRIBUTORS, INC.

This notice should be attached to and filed with your copy of the selling group agreement on Massachusetts Investors Trust.

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APPROVED PRACTICES FOR TRANSACTION OF BUSINESS IN SHARES OF MASSACHUSETTS INVESTORS TRUST

1. Offering price is computed by the custodian bank as soon as an inventory can be taken after the close of trading on the New York Stock Exchange each business day. This offering price becomes effective at 10 a. m. (Boston time) the morning of the next day on which the New York Stock Exchange is open for trading and ordinarily continues until a new offering price, figured in the same manner, becomes effective at 10 a. m. the following business day. These prices are communicated to dealers by us and are published in leading newspapers throughout the country. Offering price is established by computing the asset or "liquidating value" (cash, dividend accruals, and securities owned at closing quotations) and dividing said asset value by 0.9425. In the event of odd fractions the offering price is adjusted to the nearer cent.

2. The bid price is the net asset or "liquidating value" adjusted to the nearer cent. This bid price remains effective until a new inventory is taken after the close of trading on the New York Stock Exchange UNLESS the general market level declines during market hours in which event the bid is lowered accordingly. Note that inasmuch as the offering price which is based on the net asset value ordinarily continues in effect over a 24-hour period, the bid price (net asset value) cannot be increased during market hours when the general market level increases.

3. *Bid and offering prices are both strictly subject to confirmation by us.*—While the terms on which a dealer accepts an order from one of his customers are of course a matter between the dealer and the customer, we feel that members of the selling group, for their own protection, should accept all orders for Massachusetts Investors Trust strictly subject to confirmation. We make this suggestion because 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.

4. Orders received between 3 p. m. of one day and 10 a. m. (Boston time) of the next business day which specify no price are executed at the old or new price, whichever is lower. Orders received prior to 3 p. m. which specify "at market" or the price then in effect, are immediately executed at that price.

5. Conditional orders will be accepted which specify "at market or better." Such orders will be executed when the next day's price is known and will be executed at the old or new price, whichever is lower. Conditional orders will also be accepted to be executed "on next advance" if those words are used in sending the order to us. Such orders will be be executed when a new price of Massachusetts Investors Trust has been computed which shows an advance and such orders will be executed prior to such advance; that is, at the price in effect immediately prior to the advance.

6. Telegrams to Massachusetts Distributors, Inc., may advisedly be worded as follows: For buying shares, "Confirm one hundred twenty-one M. I. T. nine-

teen thirty-seven (or 'at market')"; for selling shares to us, "Offer one hundred twenty-one M. I. T. nineteen thirty-seven (or 'at market')."

7. Collect telegrams will be accepted by Massachusetts Distributors, Inc., for orders of 10 shares or more (not less) and such orders will be confirmed by prepaid telegram. Dealers are requested not to accept orders for less than 5 shares from new customers.

8. Draft on dealer's bank will ordinarily be sent attached to certificate in street name for 10 shares or more upon dealer's request. Certificates in customer's name will not be sent draft attached, nor will certificates be put in customer's name until full payment has been received by Massachusetts Distributors, Inc.

9. Payment for shares in full, minus dealer's concession is due upon receipt of order, and Massachusetts Distributors, Inc., may in its discretion require such payment in New York or Boston funds. If payment of amount due (or credit on draft) is not received within 5 days of confirmation of order, interest will be charged for the entire period between receipt of order and receipt of payment.

10. Transfer instructions on shares held for dealers by Massachusetts Distributors should be sent in duplicate to Massachusetts Distributors, Inc.; transfer instructions on certificates in the dealer's possession should be sent with certificates directly to the transfer department, State Street Trust Co., 8 Congress Street, Boston. More detailed instructions will be found in our leaflet, Requirements for Issuance and Transfer of Massachusetts Investors Trust.

11. Certificates in customer's name will be obtained with minimum delay by making direct payment to Massachusetts Distributors, Inc., in Boston or New York funds accompanied by transfer instructions.

12. Shipping cost on sales literature will be paid by Massachusetts Distributors, Inc., only when shipment is by ordinary parcel post. If shipped by any other method at dealer's request, such shipping cost will be charged to the dealer.

13. Cost of tax stamps is deducted by us from the amount due when we purchase shares from dealers.

14. The above terms are subject to the provisions of the selling group agreement.

MASSACHUSETTS DISTRIBUTORS, INC.

DECEMBER 1937.

I told you, based on information furnished by these 78 trusts, without check by any agent or representative of the Commission, that approximately 60 trusts on 1 day, Septemper 5, 1939, were diluted to the extent of $1,585,000, and on the 3 days of September 5, 11, and 19 of 1939 were diluted to the extent of $1,750,000. After a conference, Mr. Traylor wrote me on December 28, 1939, in reference to the problem of dilution in which he indicated the steps he and others in the industry were taking did not go far enough to solve this problem.

I should like to read you the letter which is addressed to me, from Mr. Mahlon E. Traylor. It is as follows [reading]:

DEAR MR. BANE: Following our conversation with you in Washington the other day, we proceeded to carry out our plan to change pricing methods for the sale of shares of Massachusetts Investors Trust, to become effective January 2, 1940. In that connection we sent a letter last night to the members of the selling group telling them about the change and attached to it a longer communication discussing the problem in some detail. I though you might be interested to read this letter and have a copy of it for your file. I am also sending a copy of it to Dave Schenker.

It is our considered judgment that this is a constructive move and we expect to keep records to prove to our satisfaction that we are correct in the stand we have taken. I think this change will be responsible for most of the distributors changing their procedure and I have already heard of a number of the distributors who are taking definite steps to stop selling before the new price becomes known in the afternoon which is a step in the right direction but, in our judgment, does not go far enough to solve this problem.

Sincerely yours,

MAHLON E. TRAYLOR.

I would like to introduce the letter that he sent with it, the enclosure with this letter. I have only one comment to make on this. I was somewhat surprised at the type of person to whom this enclosure is addressed, in view of the claim that this is an investment trust. This letter is headed "Important Notice to Sales Managers and Traders." I have been told they did not trade in that trust.

(The notice to Sales Managers and Traders, referred to and submitted by the witness, is as follows:)

MASSACHUSETTS DISTRIBUTORS, INC.,
*Boston.*

GENERAL DISTRIBUTORS
MASSACHUSETTS INVESTORS TRUST
SUPERVISED SHARES, INC.
BOSTON FUND, INC.

IMPORTANT NOTICE TO SALES MANAGERS AND TRADERS

As of January 2, 1940, the offering price of Massachusetts Investors Trust, determined as of the close of the market each business day, will become effective as of 4 p. m. Boston time on that day (Saturdays, 1 p. m.) and remain effective until 1 p. m. the next business day when a new offering price, based on an adjusted "liquidating value" figured on 12 noon quotations, will become effective. This new offering price will remain effective until 4 p. m.

The "liquidating value" which is the bid price, figured as of the close of the market, will become effective at 4 p. m. Boston time (Saturdays, 1 p. m.) and remain effective until 1 p. m. the next day unless the general market level has declined, in which event the bid will be lowered accordingly. The new adjusted "liquidating value" or bid price, which will become effective at 1 p. m. will remain effective until 4 p. m., though in the event of a decline in the general market level between these hours the bid will be lowered to reflect the decline.

Also as of January 2, 1940, orders for shares of Boston Fund and Supervised Shares will be accepted by us on the basis of the offering price determined as of the close of the market each day only until 4 p. m. of the following business day (Saturdays, 1 p. m.). It is contemplated that as soon as necessary changes can be made in their articles of incorporation, both of these funds will further alter their pricing method to follow that adopted by Massachusetts Investors Trust.

Orders for shares of Massachusetts Investors Trust to be confirmed at the offering price in effect up to 1 p. m. each day must be received by one of our branch offices prior to that hour. Orders for Massachusetts Investors Trust, Supervised Shares, or Boston Fund to be confirmed at the offering price in effect up to 4 p. m. must also be in one of our branches prior to that time.

The reasons for making these important and constructive changes are outlined in detail in the attached statement. Additional copies of the statement and of this announcement will be mailed to you within the next few days and we would appreciate your calling them to the attention of all of the salesmen in your organization. Extra copies may be obtained from any of our branch offices upon request.

New prospectuses on Massachusetts Investors Trust will be mailed to you so as to be in your hands on January 2 and inserts to the Prospectuses of Boston Fund and Supervised Shares will be sent promptly to members of these selling groups. Amendments to the various selling-group contracts, covering these changes, will be forwarded to you the early part of next week.

MASSACHUSETTS DISTRIBUTORS, INC.

DECEMBER 27, 1939.

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MASSACHUSETTS DISTRIBUTORS, INC.,
*Boston.*

GENERAL DISTRIBUTORS
MASSACHUSETTS INVESTORS TRUST
SUPERVISED SHARES, INC.
BOSTON FUND, INC.

STATEMENT WITH RESPECT TO CHANGE IN PRICING METHOD

The attached announcement outlines what we believe to be a thoroughly constructive change in the pricing of shares in open-end investment funds. We are convinced this new method is not only practical but is equitable from the viewpoint of both shareholders and prospective shareholders alike.

There has been considerable discussion and some publicity recently regarding the present basis for distributing shares of open-end investment funds which have revealed a wide divergence of opinion as to its merits and demerits. Also, because the problem is a complicated one, there appears to be a general lack of understanding and appreciation of the practical difficulties involved in making any change from the present system.

Accordingly, we feel it advisable for us to review our reasons for making the change outlined. In addition, we would like to discuss breifly several other suggestions for changed procedure, discussed by the industry, which we feel are impractical and unnecessary.

### HISTORY OF PRICING PRACTICE

Although the subject of pricing has only recently come in for rather widespread discussion, for many years it has received the careful and serious consideration of the leading distributors of shares of open-end investment funds and the system now in general use was evolved only after long, practical experience by the industry.

In the early days of the operations of some of the older open-end funds when fluctuations in the market were not as severe as they have been recently, prices were changed less often than once each day. However, as the funds developed, inventories were taken and prices established more often until the pricing basis now in general use throughout the industry was devised. The offering price was carried over for 24 hours (usually from 10 a. m. of the day following the determination of the price at the close of the exchange until 10 a. m. of the following day) so that all dealers from coast to coast, in spite of the time differential, could offer shares for a full business day on an equal basis.

Telegraphing price changes to a large group of dealers is an expensive process and thus it was arranged that the price figures at the close of the market each day would not become effective until 10 a. m. the following day. Thus new quotations could be distributed by means of postcards which were delivered in most dealer shops the following morning at approximately the time the new price became effective. By an large this method of pricing was considered sound and adequately solved the problems which existed.

Recently, however, the market has shown a tendency toward more violent fluctuations and as a result the 24-hour pricing basis has created a problem on occasions, particularly for some of the specialty and smaller funds whose structures and purposes vary somewhat from our original conception of the cross-section, Boston-type fund. Accordingly, a number of distributors, including ourselves, have felt it desirable to work out a revision of the pricing system which, from the standpoint of the investment fund industry, would better meet the problems presented by our present-day markets.

We would like to reiterate here the view we expressed in our statement last week with regard to Securities and Exchange Commission news releases—that it is our carefully considered judgment that the so-called "dilution" problem has been a relatively negligible factor insofar as the funds under our sponsorship are concerned. In this connection, we stated as follows:

"For example, for the year 1936 on the largest volume of sales in the history of Massachusetts Investors Trust, the so-called 'dilution' amounted to less than one-fifth of 1 percent on the outstanding shares, and for the year 1939 during which the trust experienced the largest single day's volume of sales on one of the most extreme price rises in its history, the so-called 'dilution' is estimated for the full year at only about one-fourth of 1 percent on the outstanding shares. Even this negligible result is largely theoretical in that the indicated amount of 'dilution' represents the difference between what the trust actually received in the sale of its shares and what it might have received had all the shares been sold at the higher of the two known prices each day. Also this result fails to take into account the price level at which the money received was invested. In recent weeks, for example, investment funds have had an opportunity to invest money received from the sale of shares during the September stock market rise at lower prices than those prevailing when the shares were sold and thus not only offset any theoretical 'dilution' but gain a positive advantage as a result of having sold the additional shares. This is by no means an exceptional situation as a review of the pattern of stock market price movements in recent years will quickly reveal."