

**NEW YORK STOCK EXCHANGE
MEMORANDUM**

May 16, 1963

TO: Mr. A. James Meigs
FROM: Norman C. Miller
SUBJECT: SEC Data in Chapter 1-Report #3

This is not to report on the OTC data, which are not ready yet. In the meantime, the following may be of interest.

In Chapter 2, Table II - 13 shows percentage distributions of securities industry salesmen by full-time and part-time status and by mutual fund sales and other. Separate distributions are included for "mutual fund firms" and "other firms", as well as "all firms."

Using the same algebraic procedures described in my Report #2 to you, I calculate that implicit in Table II - 13 is the "fact" that 53% of all salesmen were in "mutual fund firms" while "other firms" accounted for the remaining 47%. 1/

In contrast, Table I - 14 (Chapter 1) shows that mutual fund firms accounted for 7.6% of total gross income.

Implications of Data

If these data reflect in any way the relationship between mutual fund firms and other firms as to relative compensation paid to salesmen, the figures are highly questionable.

For example, if the average compensation per "other firm" salesman was \$15,000 in 1961, it follows that the average per mutual fund firm salesman was \$1,100. A lower assumption for "other firms" results in a correspondingly lower average amount for the other group; and similarly for a higher assumption (e.g., \$20,000 a year among "other firms" means about \$1,500 among mutual fund firms).

1/ You may check this for yourself. Take the "full-time salesmen" line for instance. Multiply .311 (31.1%) by .53 (53%); and .778 (77.8%) by .47 (47%). The sum of these two products is .53049, or 53.0% as shown in the first column in the table.

See the Appendix to this memo for the method of computing these data.

These results are a little hard to believe, even allowing for the fact that two-thirds of all mutual fund firm's salesmen were part-time. If the average full-time salesman among mutual fund firms earned as little as \$5,000 in 1961, it means that the average part-timer "earned" a negative sum (see Appendix).

Finally, I might note that if my \$15,000 assumption for "other firm" salesmen was too high and my \$5,000 assumption for full-time mutual fund firm salesmen was too low, the arithmetic results are an even larger negative figure for part-timers.

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One question is: To what extent do the SEC's gross income data indicate how salesman income is distributed throughout the industry? My feeling is that it should be close enough to suggest once again that much of the data in the SEC Study is questionable.

NCM:em

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Appendix

METHOD FOR ESTIMATING INCOME OF SALESMEN
IN MUTUAL FUND FIRMS

Data - 53% of all salesmen are in mutual fund firms, but earn only 7.6% of all sales income.

Method - Assume 1,000 salesmen, distributed as follows

<u>Total</u>	<u>1,000</u>	
Mutual Fund Firms	530	(53%)
Other Firms	470	(47%)

Assume that the average salesman with "other firms" earned \$15,000 a year. Total income for this group would be \$7,050,000 (15,000 x 470).

As per Table I - 14, assume that this amount was 92.4% of the total income of the 1,000 salesmen. It follows then that the total income for the 530 salesmen with mutual fund firms was \$580,000 (7.6/92.4 x 7,050,000).

As a result, the average mutual fund firm salesman earned approximately \$1,100 (figure rounded to nearest hundred).

By the same process, if the average salesman with "other firms" earned \$20,000, the average among mutual fund firms was about \$1,500.

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To compute the average compensation for part-time salesmen with mutual fund firms, assume that the average full-time man with such firms earned \$5,000. Since 31.1% of mutual fund firm salesmen were full-time (Table II-14), the total amount earned by this group among our hypothetical 1,000 salesmen was \$825,000 (31.1% of 530 salesmen equals 165; \$5,000 x 165 equals \$825,000).

Since all 530 salesmen earned less than this sum, part-timers were giving away their money.