CHAPTER I

SUMMARY AND CONCLUSIONS [1]

INTRODUCTION

This study represents the first extensive description and analysis of the growth of the mutual fund industry to its present important position in the financial structure of the country. The only earlier study of comparable scope was the "Report on Investment Trusts and Investment Companies" by the U.S. Securities and Exchange Commission, published 1939-42, but that report covered a period when mutual funds were still relatively unimportant.[2]

The coverage and emphasis of the present study largely reflect its genesis. The Securities Research Unit of the Wharton School of Finance and Commerce was originally requested by the Securities and Exchange Commission to conduct a "study of size of investment companies" with initial concentration on the growth sector of the industry, viz, the mutual funds. The Commission requested that the study "be primarily directed to the question of the effects of size on investment policies and comparative performance of investment companies" and, to the extent possible, to the effects of size of investment companies on the securities markets and on the policies of portfolio companies.

The initial focus of the study on selected aspects of the effects of mutual fund or company size, rather than on the role and problems of the industry generally, was a direct outgrowth of section 14(b) of the Investment Company Act. This section, which reflected the concern of Congress with proper limits to the size of individual investment companies, authorized the Securities and Exchange Commission to study the effects of size "at such times as it deems that any substantial further increase in size of investment companies creates any problem involving the protection of investors or the public interest." It was clear, however, even at the outset of this study, that the problem of size of investment companies could not be investigated without a fairly broad study of the industry covering the small as well as large funds. Moreover, after the original part of the study was nearing completion, the Commission requested that it be expanded to include an analysis of the activities of investment company advisers, which had previously been considered to be outside the scope of the study. As a result, in spite of some limitations following from the nature of the statutory genesis of this report, it represents a rather comprehensive factual background study of the entire mutual fund industry as well as a more detailed investigation of the problems relating to fund size.

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[2] Although "mutual fund" (or open-end investment fund) and "open-end investment company" are often used as synonyms in this report and elsewhere, it is possible for a company to comprise several separately registered investment funds or classes of shares. These differences are not of major importance, since in most cases funds and companies are identical, but where it is desired to distinguish between them in what follows the precise terms will be employed and the distinction should be clear from the context.

The basic data used in the report consist of replies to two sets of questionnaires (see apps. A and B), the first from mutual funds, the second from the fund advisers, with supplementary material from the funds and their underwriters. Since the part of the study relating to funds was initiated much earlier than that relating to advisers, the first set of questionnaires covers the period from December 31, 1952, through the third quarter of 1958 whereas the second set covers the year 1960. Industry information from published sources has been used to update some of the questionnaire material.

There are several significant omissions from this study for reasons which have already been suggested. Perhaps the most important is the absence of an analysis of sales methods and techniques. While sales or "loading" charges in the distribution of mutual fund shares to the public have been analyzed, no comparable study has been made of selling practices to determine whether basic canons of conduct in the securities markets have been consistently maintained. Such a study would require detailed interviews of a sample of mutual fund customers which it was not feasible to carry out. As noted later in this chapter, the commissions generally paid to mutual fund salesmen out of the total sales charge constitute a substantial inducement to sell fund shares, and it would be useful to check on the selling practices employed by part-time as well as by full-time personnel. Nor has any special study been made of the effective sales charges and selling practices involved in the sale of mutual fund contractual plans.[3]

Another gap in this report relates to developments in the investment company field which have become significant only after the inauguration of the study; these include investment companies set up largely for tax purposes, small business investment companies, real estate investment companies, tie-in sales of mutual funds and life insurance, et cetera. Other omissions largely reflect the orientation of the study and the information which it was possible to collect. Thus, the study does not focus on individual aberrations as a more legally oriented report would, nor does it attempt to resolve issues whose resolution depends mainly on value judgments, though again a more legally oriented report might attempt to do so. The basic objective here has been to provide a broad background of information and analysis from which informed judgments can be reached. In a few areas, it was not feasible to obtain even the background data for assessing satisfactorily the role played by mutual funds in the economy—notably, their impact on savings behavior—in view of the absence of interviews or similar information from purchasers of fund shares.

A description and appraisal of the functioning of mutual funds must be made with some awareness of the different groups concerned. Apart from the professional elements in the financial community involved in fund activity, there are three other distinguishable groups in the economy which have a vital interest in the growth and functioning of mutual funds: viz, the fund shareowners; other investors (and the corporations raising capital if they are regarded as having a separate interest from their owners); and the general public. A high proportion of the issues examined in this study relate primarily to matters bearing on the interests of the fund share-

[3] These gaps will be filled in the course of the special study of securities markets now being carried out by the U.S. Securities and Exchange Commission. As part of that study the Securities Research Unit of the Wharton School will tabulate and analyze relevant information on selling practices, as well as on purchaser motivation and other characteristics, obtained from a large sample of mutual fund customers.

owners who look to the fund management not only for diversification of risk but also for expert management and devotion to shareholder interests. These issues include problems of the organization and control of mutual funds; investment policy and portfolio turnover; sales charges and management fees; and fund performance. Other issues examined, such as portfolio company control and impact of funds on the stock market, relate primarily to the interests of investors generally. Some of these subjects, of course, including investment policy and impact on the market, are also relevant to the overall public interest, which is basically affected by mutual funds through their influence on the volume and composition of saving, investment and capital values.

This study will consider in some detail the impact of funds on capital values but will have less to say about their impact on investment and very little to say about their impact on saving. It may be noted here, therefore, that theoretically mutual fund shares, like saving instruments generally, would be expected to be competitive mainly with other forms of saving rather than with consumption; however, the rapid growth in net purchases of fund shares since the early 1950's (reflecting both favorable market psychology and an intensive sales effort) probably has served to enhance somewhat the proportion of income saved. The role played by mutual funds in providing outlets for saving or in channeling savings into investment is in many respects quite similar to that played by other financial institutions and does not require extended comment.

To a considerable extent all financial institutions can be regarded as exchanging their own claims—which suppliers of funds find preferable for a number of reasons, including greater liquidity and diversification of risk—for claims against other sectors of the economy, tending to lower the cost of capital and to stimulate investment. Unlike most other financial institutions, mutual funds tend to specialize in common stock investment. As compared with the alternative of direct purchases of stock by people with surplus funds, mutual funds provide a relatively easy means of diversifying risk which may be particularly useful to small investors. From the viewpoint of the economy as a whole, this diversification of risk and widespread acceptance of the associated indirect investment in common stock tends to lower the cost of equity capital and stimulate riskier undertakings, with a higher average rate of return than would probably otherwise be realized for a given total investment.

The following sections of this chapter will summarize the main specific findings of the study. One general conclusion of some importance which might be drawn immediately in view of the statutory origin of the study is that the main problems affecting mutual funds do not seem to relate to the size of individual funds or companies but rather to the industry as a whole. This is not to say that size of individual funds may not be a problem at some time in the future but simply that there is little evidence it is one at present or that it is any more of a problem currently than it had been earlier. The more important current problems appear to be those which involve potential conflicts of interest between fund management and shareowners, the possible absence of arm's-length bargaining between fund management and investment advisers, and the impact of fund growth and stock purchases on stock prices. But these problems are not related to company size, except in the sense that questions arise about the distribution between fund shareowners and investment advisers of benefits resulting from large-scale operations. Moreover, it should be noted, many of these problems relating to the divorcement of ownership and control and to the market significance of a relatively small number of large organizations are not unique to mutual funds but characterize other financial and nonfinancial institutions as well.

THE GROWTH OF MUTUAL FUNDS

The open-end investment company, or mutual fund, as a distinct form of financial enterprise, came into existence in 1924 when the Massachusetts Investors Trust (MIT) granted its shareholders the right to redeem their shares at net asset value less a stipulated discount. Following a period of initial expansion the stock market collapse of 1929 brought the distribution of most types of investment company shares to a virtual halt. A renewed expansion of mutual fund assets occurred after 1932, and in the next 4 years total assets expanded from $75 to $500 million. A decline in asset values again occurred during the recession of 1937–38, but after a 3-year period of relative stagnation the total assets of open-end companies tripled between 1941 and 1945. They tripled again between 1945 and 1952. Between 1936 and 1952, therefore, the assets of open-end companies increased almost eightfold, from $500 million to approximately $4 billion.[4]

Between December 1952 and September 1958, the period covered in detail in the present study, the market value of the assets of open-end investment companies again tripled, increasing from $4 to $12 billion. This increase in asset values of over 200 percent was accomplished by the formation and growth of a number of new funds, as well as by the continued growth of funds in existence for the entire period. Of the $8.3 billion increase in assets of the companies included in the present study, approximately $5.6 billion, or 67 percent, was supplied by net new money inflow from sales of investment company shares (including reinvested capital gains), the net change in market values of portfolio holdings accounting for another $2.6 billion, or 31 percent of the total increase. The remaining $0.1 billion represented increases in asset values resulting from absorptions of assets by mergers carried out by members of the industry.[5] Subsequent to September 1958, industry data indicate that mutual fund assets continued to rise, increasing from $12 billion to almost $23 billion at the end of 1961, with slightly over half this increase accounted for by net inflow.[6]

Of the 189 funds included in this study, 37 were organized during the 1952–58 period. The number with assets in excess of $100 million rose from 8 to 28, and the number whose assets exceeded $300 million increased from 2 to 7.[7] The median fund in asset size was $5.4 million in 1952, but by September 1958 the size of the median fund had almost tripled, increasing to $15.6 million.[8] The increase in the number of relatively large funds, however, and the increase in their average size, did not lead to an increased concentration of industry assets. A

[4] See pp. 37–39.
[5] See pp. 39–40, 75.
[6] See p. 43.
[7] See p. 76.
[8] See p. 78.

given percentage of the total number of funds accounted for a lesser percentage of total assets in 1958 than was the case in 1952, though this overall industry trend masked slightly contrary movements in the balanced fund and common stock fund sectors of the industry considered separately. As of 1958, the largest 20 percent of the funds accounted for 78 percent of the total assets of all funds combined, which was 1 percent lower than the corresponding figure for 1952. The balanced funds showed a slight increase in concentration during the period and the common stock funds recorded a slight decrease. The same tendencies are evidenced in concentration ratios based upon the percentage of total assets held by the largest fund, the largest 5 funds and the largest 10 funds of each of these main classes.[9] Between 1958 and the end of 1961 there was a further decline in these concentration ratios for all funds combined.[10]

The number of funds of most types increased during the period 1952–58, the most significant increase being in the common stock funds which announced a "growth" objective.[11] These funds were the only type which increased their share of the total annual inflow of new money to open-end investment companies in each year throughout the period.[12] During these years the rate of growth of the funds was inversely related to the size of funds, classified on the basis of their asset values as of December 1952. Though the relationship was not uniformly present throughout all size classes of balanced funds, the data relative to common stock funds and to all funds combined indicated that the smaller funds in 1952 grew relatively more rapidly than the larger funds.[13] During this period of growth, there was a shift in the relative importance of balanced funds and common stock funds. In December, 1952 balanced funds accounted for 37 percent of industry assets and common stock funds for 52.5 percent. By the end of September 1958, the share held by balanced funds had declined to 30.5 percent and that of common stock funds had increased to 58.4 percent.[14]

The annual net new money inflow to the investment companies resulting from the sales of new shares throughout the 1952–58 period approximated 14 percent of the assets at the beginning of each year. The rate of inflow remained stable, varying between 13 and 16 percent of the existing asset totals each year for the period 1954–58. This stability in the rate of inflow occurred, moreover, during a period in which rather wide fluctuations occurred in the market value of investment company assets. During the stock market upswing of 1954 and 1955, for example, the annual percentage increase in total industry assets was 52 and 27 percent. In 1957, on the other hand, the fluctuations in security values caused industry assets to fall by 4 percent, though again in 1958 the stock market recovery caused industry assets to rise by 37 percent.[15] While the percentage rate of inflow was relatively constant throughout the period studied, the change in dollar value of annual net new money inflow appeared to be positively related to changes in the market prices of equity securities.[16]

[9] See pp. 79–86.
[10] See p. 43.
[11] See p. 77.
[12] See p. 101.
[13] See p. 84.
[14] See p. 77.
[15] See p. 95.
[16] See pp. 105–106.

It is of some interest to note in connection with the inflow experience of mutual funds during this period that for most size classes of funds a positive relation appeared between the rate of growth resulting from the inflow of new money and the sales charge levied on the purchaser of new shares. This relationship was also present when the analysis excluded funds with no sales charge.[17]

In this connection, it may be noted that a particularly rapid rate of growth after September 1958 was achieved by accumulation or installment plans whose value according to industry data increased from 10 percent of total fund net assets in 1958 to over 15 percent at the end of 1961. While the proportion of net inflow represented by these plans over this period is not known, they accounted for nearly half of the increase in the number of shareholder accounts of mutual funds, a far greater proportion than their ratio in 1958. Although it is not possible to break down accumulation plans into front-end load and other types, it seems likely that the front-end load plans increased much more rapidly than mutual funds as a whole, reflecting, at least in part, the influence of the relatively strong sales inducements associated with this type of plan.

The relative stability or continuity of shareholders' investments in open-end companies is evidenced by the low rates of turnover of mutual fund shares. In each year 1952–58 the turnover rate of investors' shareholdings in the various funds was lower than the rate of turnover of all stocks listed on the New York Stock Exchange. Throughout this period, with the single exception of 1955, the direction of change of the turnover rate for all investment funds combined was the same as that of the stock exchange.[18]

THE ORGANIZATION AND CONTROL OF MUTUAL FUNDS

One hundred and fifty-six open-end investment companies submitted replies to the initial mutual fund study questionnaire. Five of these companies were multifund entities including two or more separately registered classes of shares. Thus the total number of investment funds, 189, exceeded the number of open-end companies proper. All of these funds were obligated to redeem their outstanding shares at net asset value (occasionally, less a small discount) at the discretion of the shareholder.[19] This is usually regarded as the principal distinguishing feature of the mutual fund or open-end investment company. These institutions are usually also characterized by the continuous offering of their own shares to the public. All but 5 of the 156 companies were offering their shares for continuous sale in 1958, 18 without any sales charge.

Of the 156 open-end companies, 117 were corporations and 39 were trust entities. The former accounted for over three-fourths of the assets of the mutual fund industry. The trust form remains of considerable though declining importance in the industry, including such important firms as MIT, the two sizable Eaton and Howard trusts and the 10 Keystone trusts.[20]

All but 14 of the 156 companies were parties to contracts with at least 1 outside organization that functioned as investment adviser,

[17] See pp. 109–110.
[18] See p. 107.
[19] See p. 48.
[20] See pp. 44–45.

administrative manager, or both. Five of the fourteen companies without an external adviser or manager were corporations; 9 were trust entities supervised by individual trustees. Seven of the one hundred and forty-two companies under contract with outside agencies had separate external organizations functioning as administrative manager and as investment adviser. These cases were usually characterized by a subcontracting arrangement whereby the administrative manager employed and compensated the investment adviser.[21]

The shareholders of all 117 corporate open-end companies had the right to vote annually in an election of a board of directors, although 5 of these companies had staggered elections in which only one-fifth of the number of directors were elected each year. Only 10 of the 117 provided for an annual shareholder vote on the renewal of the management contract and only 4 required annual shareholder approval of the contract with the principal underwriter. Eight of the nineteen trusts with corporate trustees required an annual shareholder vote on advisory contracts and seven provided for an annual vote of shareholders on underwriting contracts. Twenty-two of the thirty-nine trusts gave their shareholders no annual voting rights. These 22 trusts held assets of $2.4 billion, or 19.6 percent of all open-end company assets on September 30, 1958.[22]

The shares of stock of open-end companies are more widely distributed and less concentrated in ownership than those of most other types of financial and nonfinancial institutions of comparable size. In 1958 the median number of shareholders of open-end companies was almost 9,000; and in the case of only 3 of the 47 companies with assets exceeding $50 million was there a record owner holding as much as 5 percent of the outstanding shares.[23] This wide distribution of mutual fund shares reflects the fact that they have been attractive to relatively small investors. Over two-thirds of the number of the largest shareholdings (those among the largest 20) of open-end companies were owned by individuals, for the most part directly, but also as beneficial owners of record holdings of trustees, nominees, and brokers.[24]

The unusually wide diffusion of shareholdings of mutual funds, the redemption privilege given to mutual fund shareholders, and the fact that some purchasers of open-end company shares are interested primarily in acquiring the services of a specific management group, have jointly established an environment in the mutual fund business strongly conducive to "management control."[25] All open-end companies with assets exceeding $50 million and about nine-tenths of the total number of mutual funds studied in 1958 were controlled by management groups owning less than 5 percent of the shares of the fund. Although "ownership control" is diminishing in importance in the economy as a whole, it is still found more frequently in other sectors.

Since mutual fund shareholders are buyers of investment services as well as owners, and frequently regard the former as the more important aspect of their relationship with the mutual fund, the very concept of shareholder control through the exercise of voting rights

[21] See p. 479.
[22] See pp. 45–48.
[23] See pp. 52–57.
[24] See pp. 51–58.
[25] See pp. 61–65.

may be contrary to the realities of the mutual fund business. Shareholder attendance at annual meetings has been low, and shareholder voting has been carried out almost exclusively by proxy. Under these conditions management control has been a virtually automatic consequence of possession of the corporate proxy machinery by the promoting management group.[26]

Strategic position to control mutual funds is ordinarily attained in the process of their formation. Typically they are organized, staffed, and supervised by a management group associated with an investment adviser. A contract is entered into between the adviser and mutual fund before the shares of the fund are offered for public sale. The advisory contract must be approved by the shareholders following the public sale of securities, but this follows the establishment of a structure of control relationships that tends to persist for the reasons mentioned in the preceding paragraphs.[27]

Control of corporate open-end companies is legally in the hands of boards of directors of usually 6 to 10 members elected by the shareholders.[28] The Investment Company Act of 1940 attempted to enhance the value of the board of directors as a device for protecting the interests of shareholders by requiring that at least 40 percent of the membership of the board not be affiliated with the investment adviser.[29] However, the term "affiliated" was narrowly defined in the act of 1940 and does not necessarily bar from this category close personal friends, relatives, or business associates. Moreover, the selection of the independent members of the board was left in the hands of the control group affiliated with the investment adviser, and unaffiliated directors have generally been proposed by members of this control group.[30]

Furthermore, the active management of most open-end companies is delegated by the board of directors to an investment adviser or to one or a few principal officers (who are almost invariably affiliated with the adviser). This is true to a lesser degree of the trusts with individual trustees, where the trustees themselves tend to play a greater role in investment decision making. It was found in the 1960 survey that in the case of 54 percent of the companies with advisers, the board of directors met quarterly or less often, though the boards of the larger companies typically met monthly. In the case of 82 percent of the companies with an investment adviser the board's approval was not required prior to the acquisition of a new security. And in 9 out of 10 of these cases a majority of the active decision-makers was affiliated with the investment adviser.[31]

Under these circumstances, with the selection of directors in the hands of a control group affiliated with the investment adviser, and where the board is typically outside the sphere of active management of the investment company, there is some question about the extent to which reliance can be placed on the independent directors to safeguard adequately the rights of shareholders in negotiations between the investment company and the investment adviser. Similar problems are present, of course, in other sectors of the economy, but the

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26 See pp. 65–69.
27 See pp. 66–99.
28 See p. 49.
29 Except in the case of no-load funds registered under the Investment Advisers Act of 1940 that meet the requirements stipulated under sec. 10(d).
30 See pp. 464–466.
31 See pp. 49–51, 466–468.

existence of external investment advisers, and the variety of types of potential conflict of interest that may arise in the mutual fund business, raise special questions that are deserving of attention. These are discussed at some length below.

INVESTMENT POLICY

Investment policy, in the present study, encompasses the actions of investment managers as reflected in the structure of portfolios at given dates, and the frequency, timing, and to some extent the methods of portfolio changes.

On September 30, 1958, some 93.5 percent of the $12 billion of assets controlled by the funds was held in corporate securities, and U.S. corporate issues accounted for 88 percent.[32] At each of the four benchmark dates examined in this study, December 31, 1952, 1955, and 1957, and September 30, 1958, approximately 75 percent of the total net assets of the funds was held in U.S. common stocks.[33] The remaining assets were spread fairly evenly among U.S. corporate bonds, U.S. preferreds, foreign securities, and net liquid position. The most significant changes during the period under study were a marked increase in the percentage of assets held in foreign securities and an offsetting decline in U.S. preferred stocks. Between 1952 and 1955 the increase in the percentage of assets held in foreign securities was due to heavier investments in Canadian stocks, but between 1955 and 1958 the expansion of Canadian investment slackened and heavier investments were made in non-Canadian foreign stocks.[34]

During the 1952–58 period the net assets of the funds increased by 213 percent, U.S. common stock investments expanded by the comparable rate of 217 percent, and at the final date the funds holdings of U.S. common stocks represented 3½ percent of the value of all stocks listed on the New York Stock Exchange.[35] During the same period Canadian stock holdings rose by 585 percent, and the rate of increase in non-Canadian foreign stocks (from $1.5 million to $144 million) was many times larger than the 213 percent increase in the funds' total assets.

Throughout the 5¾ years studied the smaller funds generally maintained a larger proportionate defensive portfolio position.[36] If a certain minimum size of dollar investment is required in cash, near-cash, bonds, or any other categories of senior securities, it will force the smaller funds to devote a greater percentage of their resources to these items than the larger funds hold in the same forms. The largest funds (those with net assets of $300 million and over at September 30, 1958) had the lowest percentage liquidity at each of the four benchmark dates, and for each of the first three dates (1952, 1955, and 1957), there was a continuous reduction in the percentage liquidity as the size of fund increased. With the passage of time, moreover, the smallest funds have decreased their relative liquidity as they have grown in size.[37] It was found that the tendency for the smallest funds to hold a larger relative liquidity position was not closely related to the age of the fund.[38]

[32] See p. 128.
[33] See p. 132.
[34] See p. 129.
[35] See pp. 132, 133.
[36] See p. 133.
[37] See pp. 133–134.
[38] See p. 134.

The principal differences in portfolio distributions among the funds are the result of differences of announced investment objectives. Common stock funds held 87¼ percent of their assets in U.S. common stocks in September 1958, the percentage having fallen from 91 percent in 1952.[39] Their net liquid position accounted for 7 percent of the portfolio in 1958 and the remaining assets were distributed among foreign securities and domestic bonds and preferred stocks, these security groups accounting for about 3, 2, and 1 percent of the portfolio, respectively.

The balanced funds as a whole held 63 percent of their assets in domestic common stocks in 1958 and 15 and 14 percent, respectively, in domestic bonds and preferred stocks.[40] The most interesting feature of the industry's corporate bond investments was the fact that the bond and preferred stock funds stressed heavily the holding of "other" grade bonds, rather than "investment grade." In 1958 the "other" grade bonds accounted for the rather high proportion of 89 percent of the total U.S. corporate bond holdings of those funds. There had been little change in this figure since 1952. For the balanced funds, on the other hand, investment grade bonds were stressed.[41]

An analysis of portfolios by industrial composition was based on a classification of corporate securities under five principal headings: industrial, utility, transportation, financial, and foreign.[42] In the bond section the transportation share (principally railroads) of the total fell sharply over the period covered and this was offset by a doubling in the relative share of the general industrial bond holdings and by an even larger proportionate expansion of the financial bonds. In the preferred stock section, a similar fall in the transportation securities was offset by an increase in utility preferreds. In the common stock section, transportation and utility securities both declined in relative importance, and the strongest relative increase occurred in the foreign stock investments.[43]

A more detailed division into 33 industrial classes revealed that the funds placed the largest share of their combined corporate portfolio in oils and utilities, each of which accounted for more than 10 percent of the corporate portfolio at every benchmark date. The greatest relative increases during the study period were in steel and drugs. In addition to utilities and oils, the largest industries in 1958 were chemicals and glass, steel, railroads, and machinery, each of which comprised over 5 percent of the total corporate portfolio. Utility holdings were the largest for every size group of funds in 1958, but there were differences in other aspects of the industrial composition of the various size groups. Only four industries had accounted for more than 5 percent in 1952: utilities, oils, rails, and chemicals and glass.[44]

Between 1952 and 1958 there was a decrease in the tendency to concentrate portfolio holdings in particular industries. The top four industries accounted for 49½ percent of the combined corporate portfolio in 1952, and only 39½ percent in 1958. A greater degree of concentration by industry existed in the largest funds' portfolios than in those of the smaller funds, though the industrial concentration for each size group of funds, as well as for all funds combined, declined progressively between 1952 and 1958.[45]

[39] See p. 136.
[40] See p. 137.
[41] See p. 138.
[42] See p. 139.
[43] See pp. 139–141.
[44] See pp. 142–144.
[45] See p. 142.

An analysis of the industry distributions of the funds' common stock investments, as distinct from their total corporate investments as referred to in the foregoing, reveals that oils occupied the highest rank in 1958, and utilities and rails each represented smaller relative shares of the common stock portfolio than they did of the total corporation holdings at each of the four benchmark dates.[46] In the total common stock portfolio, also, the degree of concentration by industry declined during the period covered by the study.[47]

Some appreciation of the market significance of the funds' holdings in selected securities can be obtained by viewing the 30 common stocks in which the funds had their largest dollar investment during the years 1951 through 1957. At September 1958, these stocks accounted for 36.4 percent of the total value of all stocks listed on the New York Stock Exchange, but of course, a much smaller percentage of all outstanding stock, and for the smaller figure of 23.5 percent of the funds' common stock portfolio. The largest four stocks listed on the exchange, American Telephone & Telegraph, Du Pont, General Motors, and Standard Oil of New Jersey, represented 19.4 percent of all listed values, though they accounted for only 4.3 percent of the funds' common stock portfolio.[48]

More important from the viewpoint of the capital market significance of the funds' portfolios, however, is the percentage of the total listed issue of each of those 30 stocks held by the funds.[49] In September 1958, the funds' total holdings of the 30 stocks amounted to 2.6 percent of the stocks' total listed value. In 1952 the corresponding figure had been somewhat lower at 1.5 percent. Wide variations occurred, however, in the individual stocks. In 1958 the percentages of issues held ranged from 0.6 percent of American Telephone & Telegraph stock to 10 percent of Goodyear stock. While the funds had large absolute dollar holdings in large corporations, the percentage of these corporations' voting stock held was not as high as in some of the stocks which occupied lower places by dollar values in the funds' portfolios. The funds held less than 5 percent in 1958 of each of the stocks which comprised the highest five ranks by dollar values in the funds' portfolios: International Business Machines, United States Steel, Texas Co., Standard Oil of New Jersey, and Bethlehem Steel. In the case of the largest four stocks listed on the New York Stock Exchange, the funds held less than 1 percent of American Telephone & Telegraph, Du Pont, and General Motors, and 1.3 percent of Standard Oil of New Jersey.[50]

A further view of the relative importance of this sample of 30 stocks is provided by an analysis of purchase and sale volumes. The total purchases of these stocks on the New York Stock Exchange by all investors was approximately 15 percent of the total of all stock purchases on the exchange throughout the study period.[51] Investment fund purchases of these stocks rose from 6.2 percent of the total market trading in these stocks in 1953 to 8.9 percent in 1958, though a significant portion of the funds' purchases in the latter year (approximately 25 percent) was due to the formation and entry into the stock market of two large funds.[52] Throughout the period 1955–57,

[46] See p. 155.
[47] See p. 156.
[48] See pp. 167–169.
[49] See pp. 172–173.
[50] See p. 173.
[51] See p. 169.
[52] See p. 258.