**Correspondence – National Association of Investment Clubs**

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National Association of Investment Clubs

NAIC
INVESTMENT EDUCATION
EST 1951

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July 30, 1974

The Honorable Jimmy Carter
Governor of Georgia
1974 Campaign Chairman
DEMOCRATIC NATIONAL COMMITTEE
P.O. Box 1524
Atlanta, Georgia 30301

Dear Jimmy:

I greatly appreciate receiving your letter and welcome the opportunity to express the concerns of the millions of individual investors as we know them.

Never in my experience has this group felt more ignored and discriminated against. There are over 30 million individual investors in the United States and millions more whose fortunes are greatly affected by security prices through pension plans, insurance policies and other institutionalized funds. Many tax and legislative proposals that are publicized as getting to the super-rich wind up affecting these people to a much greater extent.

I would like to mention a few specific areas where the individual investor is concerned:

> In the tax area, inflation and tax changes give the individual much concern with the Capital Gains Tax. Inflation has produced capital gains that are taxable but not real. An adjustment to the tax basis of a capital good for the amount of inflation that has occurred during the period it has been held or a gradual reduction of the tax rate over a period of years would place the individual in a more equitable position. Through the years, the government has been giving various sections of institutionalized wealth freedom from taxation. While this may be a worthy practice, it has placed the individual at a disadvantage in the securities markets, especially in recent years as the markets have come to be dominated by these institutions.

There are many areas in the securities markets themselves where the individual has suffered greatly in recent years. Various units of our government have been "reforming" the securities markets. Whether these changes and those still contemplated are good for the country or not is an open question. There can be no doubt so far that they have shifted much of the market costs from institutions to individuals. If anyone in the government is looking after the individual investor in this process, it would be pretty hard to convince most individual investors. In recent years, the cost of purchasing securities for many of our great institutions has been reduced by as much as 60-80%, while the individual has seen his costs more than double. For our Investment Clubs, for instance, the minimum commission on a small order a few years ago was $6.40. Recently, a number of brokerage firms have established a minimum charge of $35. This is a result of the government's program of bringing negotiated rates to the brokerage industry. To the individual investors, this looks very much like the government and the great institutions have been working together to shift costs from the institution to the individual. No amount of rhetoric changes what has happened to the individual investor. I believe a great deal of attention must be paid by our Representatives and Senators to what has been done to the individual and a great improvement made in his position.

We do not believe there is any difference in the interests of the individual investor and in the National interest. We believe that a greatly broadened ownership of industry and business is of great National importance. This is important to our economic system as a means of providing a broad base of capital formation for our production needs. It is important to individuals to ensure broader opportunity to more of our people. To have a broad ownership of industry, we must have tax, economic and legislative conditions that give the individual investor equal opportunity.

I recently had a very interesting conversation with a man who has much to do with the execution of the economic policies of Austria, a nation that seems to be doing very well in this period. As I understand their policies, I believe there are some lessons which could be of great value to our country. Having lived under a communist government and being an economy split between socialists and capitalists, the Austrian government goes to considerable effort to avoid the extremes. The effort in every economic conflict is to avoid the demands of the extremes and to try to reach the decision for higher prices, higher wages, or higher taxes on the basis of which decision will result in the combination of maximum production at lowest costs for the greatest good for the greatest number. That's really what good investing is all about.

Very often in this country we have seen government acting as the adversary of business. In a country like Austria and in our chief competitive nations, Germany and Japan, the government seems more frequently to foster cooperation between industry, labor, investors and itself. Their success is remarkable.

We are delighted to know of your interest in these matters and to have the opportunity to forward these thoughts to you. We'd be delighted at any time to offer further thoughts concerning the needs and interest of the individual investor.

Yours very truly,

Tom

Thomas E. O'Hara
Chairman, Board of Trustees

TOH:kk

P.S. I thought you might like to see a copy of the editorial we are running in the September issue of our magazine.

THE CAPITAL MARKET
AND THE
INDIVIDUAL INVESTOR

For many years the capital market of the United States has been the envy of the world. It has not only been tremendous in size, but it has been marvelously efficient in raising capital for industry and in providing exceptional liquidity in those markets.

For a number of years, difficulties have been developing in those markets. Some of those difficulties arise from the steady institutionalization of the market, and some arise from government mandated changes in those markets. The two are probably tied together since there is a strong likelihood that most of the changes the government is mandating can be traced back to strong lobbying by various institutions in efforts to increase their own position of advantage.

We believe there is question whether many of the changes being proposed are in the interests of maintaining the superiority, efficiency and effectiveness of our capital markets, and we believe they may be particularly harmful to the individual investor. We believe our governmental units that have been involved in proposing these changes have tended to be microscopic in their outlook and have not given attention to the really broad problems in the capital market. We believe these actions have not given consideration to the harm that is being done to the individual investor in the capital markets, and practically no attention is being given to the real problems resulting from the growing institutionalization of our capital markets.

For instance, negotiated rates have been heralded as a tremendous public benefit. Negotiated rates have been in effect for several years and are scheduled to be fully in effect next Spring. We have yet to hear of an individual investor who has benefitted from negotiated rates. In fact, the result has been to heavily penalize the individual investor. The institutions which have worked to get negotiated rates have reduced their commission payments to a fraction of what they were. On the other hand, the individual investor in many instances has seen his costs more than double. We do not know whether any of the savings on commissions that institutions have enjoyed have been passed on to their beneficiaries, but, if they have, we wonder what the beneficiaries think of those pennies saved as compared with the dollar decline in their capital values resulting from the withdrawal of the public from our capital markets. There is an argument that institutional sized orders cost less to process than small individual orders, yet those costs may well be balanced off by the need to maintain organizations large enough to effectively market institutional sized orders and handle all of the other problems connected with them.

There is an argument that the brokerage industry is much too big and full of inefficient firms and that negotiated rates will force the inefficient firms out of business. It's hard to argue with that logic, but we have a fear that this result could have just as bad an effect on the individual investor as the commission changes have had so far. We have a belief that much of the inefficiency in the industry has already been shaken out. What is left may not be so much in the individual firms as it is in the whole process of identifying security ownership. The failure to eliminate stock certificates cannot be blamed totally on the brokerage industry. The bank registry and transfer departments, the listed corporations and the government units involved all must give leadership in getting this problem solved. The industry is to be greatly criticized for the politics which have kept it for many years from making full use of computers to maximize its efficiency in executing orders and in providing the connections to such a system that would enable individual firms to maximize their own efficiency. Earlier action in this area might have forestalled many other problems. Government efforts to bring such a system into full use should provide sizable benefits to the individual investor.

We believe that the brokerage industry may well be one of those industries where the existence of a large number of small units may result in an industry better able to serve both industry and the public. A policy which ensures the demise of these firms may produce little good for the public.

We have no desire to penalize our great institutions, but we do believe it is extremely important, as institutions continue to increase their domination of our capital markets, to take a broad look at what this effect will be. Mandated changes in the securities markets which do not take this into effect may be extremely harmful. If institutions continue their past policies of confining their investments to a few securities, we may never again have a really broad stock market. If many of them continue an investment policy that is more speculative than traditionally institutional, our future markets may be very unstable.

We believe it is important, too, to keep in mind the growing force and competition of overseas influences on our capital markets. They must be protected from manipulation or dominance from other areas.

We hope our government agencies will take a new look at our capital markets and proposed changes in them. Let's make sure that those changes cease penalizing rather than strengthening the individual investor.

Sound capital markets are vital to our future, and the individual is vital to those markets. ###