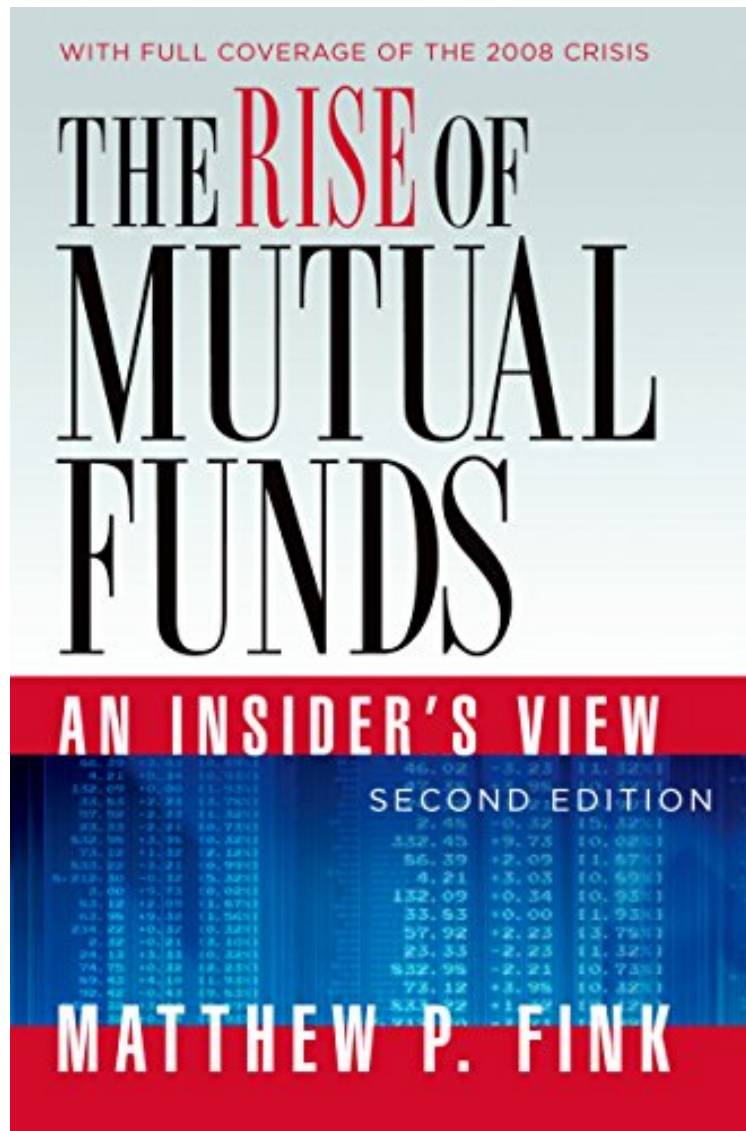


The Rise of Mutual Funds: An Insider's View

Matthew P. Fink

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Matthew P. Fink : The Rise of Mutual Funds: An Insider's View before purchasing it in order to gage whether or not it would be worth my time, and all praised The Rise of Mutual Funds: An Insider's View:

2 of 3 people found the following review helpful. Well-written. Full of "oh, so THAT'S why" moments. If the title interests you, then the book will interest you. By Daniel P. Smith Fascinating to me and much better than I expected. For me, every chapter contains several "Oh, so THAT'S why" and "I never knew that!" moments. What makes him an "insider" is his association with the Investment Company Institute from 1971 to 2004. "Insider" doesn't mean "shocking shenanigans spilled by whistleblower," it means "someone who watched and participated as things unfolded

and can explain them well." Fink's viewpoint is unabashedly in favor of mutual funds (or rather "investment companies.") Anything good for the industry, he's for. That's fine with me, I don't need to agree. I learned something about lobbying and industry associations, in terms of what they actually DO. Bismarck said "Laws are like sausages, it is better not to see them being made," but I'd compare this book to the industrial tour I took of the Taza chocolate factory. I expected it to be in favor of chocolate, the smell eventually got to me... but it was really interesting. Me, I don't know whether money market mutual funds are a Good Thing or a Bad Thing--I have my doubts, it seems like a sneaky way to evade banking regulation, and the collapse of the Reserve Primary fund makes me think they needed it. Nevertheless, I enjoyed reading his story of how he traveled from state legislature of state legislature lobbying against state laws that would have subjected the funds to state regulation, and crowing over his hard-fought victories. The writing is crystal-clear and he has a sure touch for conveying the right level of detail. Just a few things I've learned so far that I never knew. 1) We take it for granted that stock dividends are passed through mutual funds without being taxed on the way, that the fund acts as a conduit. It didn't have to be that way and wouldn't be without a passage of a key law, the Revenue Act of 1936. 2) Similarly, we take it for granted that we can buy a muni fund that invests in tax-exempt bonds and not pay taxes on the dividends--but that pass-through tax exemption, recommended by Eisenhower in 1955, and first proposed as a bill in 1958, was not passed until... 1976! 3) I first became seriously aware of mutual funds in the early 1980s. I'd vaguely assumed that was just "when I started paying attention," but he explains how regulations made it practically impossible to advertise them effectively before then. The SEC had taken the view that securities must not be "pre-sold" before investors had had a chance to read the Prospectus, and interpreted this in a way that prevented companies from advertising much more than the name of the fund and the address of the fund company. He points to the loosening of advertising restrictions as a major factor in the rise of the "no-load" fund. 4) I'm a great big fan of Jack Bogle and Vanguard, but nevertheless welcomed an interesting, dispassionate, and non-adulatory view of his contribution. 5) Again, he's a mutual fund advocate and therefore treats the rise of the 401(k) as pretty much an unalloyed good. I hadn't realized how important a key provision of the ERISA regulations had been: the regulation needed to state explicitly that an employer can let employees choose their own investments from a broad range of alternatives without the employer bearing any responsibility for those decisions. (Disclosure: I bought this book at a "monthly deal" price of \$2.51)

4 of 4 people found the following review helpful. Wall Street (and Washington) could learn something from Main Street

By Jeff Lord

Regular readers of the business press know that mutual fund companies don't attract the breathless media coverage typically devoted to the intrepid, visionary geniuses who launch hedge funds and private equity firms. After all, everyone knows mutual funds are boring, right? They can't short stocks, can't use leverage, are heavily regulated and have to disclose all their best ideas. Why talk about common Chevrolets when you can write about mysterious Lamborghinis? To these folks, a book about the rise of mutual funds is about as enticing as one about the rise of vanilla ice cream. It won't be the first time these folks have been dead wrong.

Matt Fink's book is not so much about the investment side of the fund business. That subject presumably would have been a stretch for someone whose career was spent inside the beltway. Instead, Fink provides us with a guided tour of nearly 70 years worth of public policy developments that allowed the investment side of the fund business to expand and prosper, ultimately reaching nearly two-thirds of all middle-income American households. Remarkably, Fink was a major participant in many of these developments through his work at the Washington trade group that represents mutual funds, the Investment Company Institute. Fink does not press the point, but one of this book's many quiet virtues is to demonstrate that strict government regulation that is intelligently conceived, executed and overseen can help rather than hurt financial businesses, and enhance rather than constrain the interests of individual investors. Fink does not shrink from the fact that his job was to advance the interests of mutual fund companies. Refreshingly, he also refrains from pious assertions that his industry's success in Washington was attributable to leaders who were more noble or public-spirited than others in the private sector (although some clearly were). Instead, an industry on the brink of extinction in the 1930s realized that strong and effective regulation provided an opportunity to begin remedying and rebuilding relationships with investors, many of whom had been betrayed or, at a minimum, badly served, by fund organizations in the euphoria of the late 1920s. Fink describes how the ethos that brought industry leaders together in support of comprehensive legislation in 1940 persisted over the decades and generally served fund companies, and fund investors, surprisingly well. If they didn't get it in the industry's early years, most fund leaders understand now that the success of the mutual fund business model depends entirely on individuals who are committed to long-term investing. Fink explains that this structural fact is profoundly important: that it is what aligns the interests of fund investors with those of the advisers who manage their investments, and what distinguishes mutual funds from so many other financial services and products. Mark Twain said that "prosperity is the best protector of principle." Fink recounts that the first major fund industry scandal since the New Deal followed the bursting of the tech bubble in early 2000 and the three-year bear market that followed. To his credit, however, Fink does not suggest tough market conditions or other external factors caused the abuses, and he is unsparing with respect to the industry executives directly involved. Fink's shock and disappointment is evident as he describes how the unfolding series of abuses in 2003 and 2004. In light of our current difficulties, it seems especially notable that shareholders in the funds affected by the scandal recovered 100% of their losses (which proportionally, were rather small) and that numerous

executives were fired and held personally liable. Moreover, the scandal accelerated a flight to quality that has seen most of the industry's most acclaimed, shareholder-friendly firms attract new investors and significantly expanded shares of the market. Mutual funds are obviously not immune to the economic difficulties we read about and feel every day. Like many others, my family's retirement and college savings accounts have gotten clobbered. But Fink's book is a reminder that mutual funds are resilient and -- unlike the unfathomably complex products devised by the geniuses on Wall Street (at least those who are not now known as former geniuses) -- have a proven record of surviving and even flourishing through all sorts of national crises and market declines. We are keeping our faith, and our money, in mutual funds. And if you want to know why, Matt Fink's book supplies a big part of the answer.

In 1940 few Americans had heard of mutual funds. Today U.S. mutual funds are the largest financial industry in the world, with over 88 million shareholders and over \$11 trillion in assets. New and updated to reflect the crash of 2008, Matthew Fink's latest book, *The Rise of Mutual Funds: An Insider's View*, Second Edition describes the developments that have produced mutual funds' long history of success. Among these developments are: * formation of the first mutual funds in the roaring 20s * how the 1929 stock market crash, a disaster for most financial institutions, spurred the growth of mutual funds * establishment in 1934, over FDR's objection, of the United States Securities and Exchange Commission, the federal agency that regulates mutual funds * enactment of the Revenue Act of 1936, the tax law that saved mutual funds from extinction * passage of the Investment Company Act of 1940, the "constitution" of the mutual fund industry * the creation in 1972 of money market funds, which totally changed the mutual fund industry and the entire U.S. financial system * enactment of the Employee Retirement Income Security Act of 1974, which created Individual Retirement Accounts * the accidental development of 401(k) plans, which have revolutionized the way Americans save for retirement * the 2003 trading abuses, the greatest scandal ever in the history of the mutual fund industry Many events have never been discussed in detail; others have been discussed in works on other subjects. This is the first book that pulls together the many strands of mutual funds' unique history, written by an expert who draws on forty years of personal experience in the fund industry.

"An excellent account...elegant prose that is impressively free of jargon. ... very timely indeed."--TLS, October 2008 "The book is an exception to the standing rule that participants are typically unable to write objective histories of their own bailiwicks. ...simultaneously a narrative history of the mutual funds, a partial autobiography, and a critique of the regulatory process. The result of this eclectic approach is surprisingly satisfactory, as Fink manages to present information that will be useful to academic researchers, lawmakers, and government regulators."--Business History "Matt Fink writes about mutual funds with the diligence of a scholar, the passion of an enthusiast and the authenticity of one who helped grow the industry from billions to trillions in our lifetime. His new book--*The Rise of Mutual Funds: An Insiders View*--is must-reading for trustees, fund executives, legislators, regulators, students and journalists writing about financial services. I recommend it with enthusiasm."--William L. Armstrong, U.S. Senator (retired), Chairman, Denver-based Oppenheimer Funds "Matt Fink was an active participant in the rise of the U.S. mutual fund industry from cottage industry to global force. His historical perspectives and real-time commentary make this book a must read for people interested in the past, present, and future of this vital industry."--Jack Brennan, Chairman, Vanguard "No-one is better-positioned than Matthew Fink to write about the extraordinary rise of mutual funds as key financial institutions in America. The mutual fund industry has brought to the individual investor a high level of professional investment management that extends over a very broad range of investment styles, sectors and world markets. The rise of the 401(k) Plan has meant that large portions of what had been classic institutional investor assets are now mutual funds subject to the control of individual investors. It is an amazing story told by the man at the center of it all."--Stephen J. Friedman, President of Pace University and former Commissioner, Securities and Exchange Commission "Matthew Fink has written an extraordinarily well-informed 'insider's view' of the recent history of the mutual fund industry. Building on his expertise as past President of the Investment Company Institute and his participation in virtually every relevant Congressional or SEC debate, Fink provides a comprehensive and learned account of why mutual funds have grown to become this country's most distinctive and most widely held investment vehicle."--Joel Seligman, President, University of Rochester "Matt Fink writes about mutual funds with the diligence of a scholar, the passion of an enthusiast and the authenticity of one who helped grow the industry from billions to trillions in our lifetime. His new book--*The Rise of Mutual Funds: An Insiders View*--is must-reading for trustees, fund executives, legislators, regulators, students and journalists writing about financial services. I recommend it with enthusiasm."--William L. Armstrong, US. Senator (retired), Chairman, Denver-based Oppenheimer Funds "As a lobbyist and eventual head of the Investment Company Institute, Matthew P. Fink watched and helped foment the mutual fund industry's most rapid growth in the 1980s and 90s. His new book, *The Rise of Mutual Funds* (Oxford University Press), traces its origins in the stock market-crazed 1920s, and the battle to regulate investments in the New Deal. It sums highlights like the 1936 tax on dividends that made fund ownership more attractive; and the funds' later promotion as 'insurance against Socialism or Communism.'"--The Philadelphia Inquirer Online "Matt Fink was an active participant in the rise of the U.S. mutual fund industry from cottage industry to global force. His historical

perspectives and real-time commentary make this book a must read for people interested in the past, present, and future of this vital industry."--Jack Brennan, Chairman, Vanguard "No-one is better-positioned than Matthew Fink to write about the extraordinary rise of mutual funds as key financial institutions in America. The mutual fund industry has brought to the individual investor a high level of professional investment management that extends over a very broad range of investment styles, sectors and world markets. The rise of the 401(k) Plan has meant that large portions of what had been classic institutional investor assets are now mutual funds subject to the control of individual investors. It is an amazing story told by the man at the center of it all."--Stephen J. Friedman, President of Pace University and former Commissioner, Securities and Exchange Commission "A terrific new book."--Chuck Jaffe, MarketWatch.com "Matthew Fink has written an extraordinarily well-informed 'insider's view' of the recent history of the mutual fund industry. Building on his expertise as past President of the Investment Company Institute and his participation in virtually every relevant Congressional or SEC debate, Fink provides a comprehensive and learned account of why mutual funds have grown to become this country's most distinctive and most widely held investment vehicle."--Joel Seligman, President, University of Rochester "Mathew P. Fink tackles a subject that has not been adequately addressed by financial historians.... Fink must be commended for his focused, wide-ranging bibliography."--Business History About the Author Matthew P. Fink was employed by the Investment Company Institute, the national association of the mutual fund industry, from 1971 to 2004, and served as its President from 1991 to 2004. He is the author of articles on mutual fund history and regularly lectures on that history. He is an honors graduate of Brown University and Harvard Law School and attended the London School of Economics.