

October 9, 2000

Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Re: SEC File No. 4-439

Dear Mr. Katz:

The National Association of Investors Corporation hereby petitions the Securities and Exchange Commission to adopt rules designed to improve the quality and frequency of mutual fund portfolio disclosure. Specifically, NAIC requests that the Commission adopt rules that:

- (1) Prohibit mutual funds from using names that suggest that they invest in a particular type of security unless at least 85% of their assets are invested in that type of security;
- (2) Require that mutual funds post their portfolios on a free-access Internet site on a monthly basis within 60 days after the end of each month, with exceptions granted by the Commission on a case-by-case basis; and
- (3) Require that mutual fund portfolio holdings be provided on the Internet in a user-friendly format that is easy to download and analyze, and provide paper copies of this information upon request.

National Association of Investors Corporation

NAIC is a non-profit organization founded in 1951 whose mission is to foster investor education primarily through encouragement of investment clubs and investment education of individual members. NAIC has over 650,000 members and more than 36,500 investment clubs. NAIC's programs, services, products and support are designed to help individuals at all knowledge levels to become successful, long-term investors. NAIC has provided investment education to more than five million individuals and is a charter member of the World Federation Investors, providing investment education in over 17 countries worldwide.

Mutual Fund Portfolio Disclosure

Mutual funds have never been more important to workers' financial security. The latest tallies show that 88 million Americans are mutual fund shareholders, representing more than half of U.S. households. The importance of providing investors with the information they need to make informed investment decisions, and ensuring that they are protected against fraudulent sales practices and other abuses, has never been greater.

Unfortunately, existing SEC rules do not provide investors with adequate information about how their funds are investing their retirement money. Mutual funds are required to disclose their portfolio holdings only twice each year, and these disclosures are not provided in a format that makes it easy for investors to understand whether funds' investments are consistent with their shareholders' expectations.

The average managed mutual fund turns over its entire portfolio every year. A snapshot of a fund's portfolio holdings every six months is inadequate to provide investors with the information they need to determine how their funds are actually investing their money, so that they can assess whether fund investments are consistent with the risks that they have chosen to assume.

Furthermore, substantial empirical evidence suggests that portfolio managers routinely engage in style manipulation, window dressing and portfolio pumping.¹ NAIC is concerned about findings by independent, academic studies that suggest that fund managers are engaging in such forms of portfolio abuse, and the possibility that current disclosure rules may, in effect, shield these practices from public view.

The continued growth of self-directed retirement accounts will magnify the importance of ensuring that investors have the information they need to make informed investment decisions. We strongly urge the Commission to adopt rules as soon as possible to improve truth in mutual fund investing for America's mutual fund shareholders.

Sincerely,

Kenneth S. Janke
President and CEO

cc: The Honorable Arthur Levitt
The Honorable Isaac C. Hunt, Jr.
The Honorable Paul R. Carey
The Honorable Laura S. Unger
Paul F. Roye, Esq.

¹ See Fund Democracy, Memorandum in Supporting of Rulemaking Petition (June 28, 2000) (http://www.funddemocracy.com/truth_in_mutual_funds.htm).