

Good morning and thank you for your interest in our study. I would like to express special thanks to the Zero Alpha Group and especially Jeff Buckner for their support.

My name is Mercer Bullard. I am the president and founder of Fund Democracy, a nonprofit advocacy group for mutual fund shareholders, and a securities law professor at the University of Mississippi School of Law. I was formerly an assistant chief counsel at the SEC and before that I was in private practice representing fund companies and other financial services firms.

As all of you know, mutual funds have become Americans' investment vehicle of choice, but there are significant problems in the way they go about choosing them. The overwhelming majority of funds are purchased through an intermediary, often a broker. Brokers ostensibly work for investors, but today's study suggests that brokers actually work for fund companies.

In July 2003, Fund Democracy and the Consumer Federation of America issued a report that showed that some investors in index funds and money market funds were paying grossly excessive fees. Some funds charged more than 10 times the fees charged by their lowest cost competitors. The ICI essentially responded that excessive index fund fees were acceptable because there were valid reasons why some funds cost more to operate than others, such as differences in size. That may be true, but what

really matters is not why some funds are more expensive but why investors choose more expensive funds.

The answer is both simple and troubling. Investors buy more expensive funds because that is what their brokers recommend. One would expect investors to pay for their brokers' advice, but one would not expect that having already paid for professional advice investors would pay an additional broker penalty by being placed in more expensive funds. But they do. What investors receive in return for the extra fees they pay to brokers is the opportunity to pay extra fees to fund companies.

One reason for this state of affairs is that federal law requires that mutual funds – not brokers -- set the fees that brokers charge. And brokers, like all economic actors, respond by serving the hand that feeds them. Brokers need not worry about violating their fiduciary duties to investors because the SEC has changed the law so that brokers generally no longer have fiduciary duties to investors. The SEC also has repeatedly promised to reform the rules governing brokers' compensation practices, but has made virtually no progress toward this end. What is most troubling about our findings is that Congress and the SEC seem to have no interest in changing the status quo.

Thank you again for listening. I will be happy to take questions at the conclusion of our introductory remarks, or later today at my office number.