Main Street Comes to Wall Street

A New Investment Concept Is Born

BY

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The growth of a financial institution—although it may appear cold, statistical, or impersonal—is in many respects as interesting and vital as the growth of a child. Both must be conceived, born, and nurtured. Both must gain experience as they grow, through the difficult and sometimes painful process of trial and error. Both must develop a set of basic standards upon which they will operate—a philosophy of life, if you will. Then, if they are healthy, if they have a sound purpose, if they put service before self and—most important of all—if the warm sun of good fortune shines upon them, they will be successful.

This is the story of how one such new financial institution, one special mutual fund, was born. This is not, as such, its success story, for Wellington Fund's success is attested by the facts and figures of today: more than $1.6 billion of resources, 350,000 shareholders (among the world's seven largest corporations in

this respect); an uninterrupted string of 136 dividend distributions, paid in varying amounts every three months, with income dividends totaling $335 million and capital gains distributions exceeding $330 million. These facts and figures, however important, are the less colorful side of the story. Of interest now is how the Fund was born, and the influences that came to bear on its formative years. For these events were the foundation that gave Wellington Fund the stamp of character that accounts for its success and that remains a basic part of the Fund today.

December 27, 1928, was the day the Fund was born. Not an important date, really, but simply the date on which were filed, in the State of Delaware, the variety of drab legal documents that breathe life into a corporation. At that point in time, then, an idea became a business in being. Small, humble, and insignificant, to be sure, but with the potential of success in its future—a future that in many respects had been determined by what went before.

The idea that kept coming into my mind in the early days was, like most good ideas, the essence of simplicity: to combine a group of individual investment accounts into a single large fund, which could be diversified broadly over perhaps a hundred or more securities, and managed efficiently by trained investment experts. To develop such a "mutual fund," of course, would require promotional, analytical and managerial abilities that were to come in part from my heredity and my training, and in even greater part from my good fortune in surrounding myself with people who knew more than I did.

The earliest evidence I can remember of the promotional instincts that were threaded through my family background was a rather extravagant prospectus for the Rival Promoting Company, written in 1907 by my maternal grandfather, James L. Lovett. In his flowery words: "Extraordinary is the promise of this new company as a profit maker . . . the only small thing about it is the present price of its shares. Within a few weeks that won't be small either. When the high character of the management and the exceptional merit of the property (a gold mine) is considered, it is safe to predict absolute security and enormous profits and dividends to every purchaser at, or near, present prices."

My grandfather also had a wonderful humanitarian instinct, a most appropriate companion to his long Santa-Claus white beard, and the Rival prospectus pointed out that he was raising the money not only to recoup rewards from the gold, but also "to make the mine safe for man or beast." His claims for the mine (probably less extravagant by the standards of the turn of the century than they would be judged today) proved overzealous, and the Rival Promoting Company did not fulfill its promise. There was gold in the mine (doubtless it is still there), but it cost too much to get it out of the ground. His other investments—generally of a radical and speculative flavor—also worked out badly, and the nest egg he had accumulated for his retirement was entirely lost by the time he reached the age of seventy. I can recall no other financial event in my lifetime that made such an indelible impression on me, demonstrating as it did the need for careful and conservative financial management.

Nevertheless, there was still a great deal I had to learn from my own experience. I was confident I could be a successful investor, and was impressed by the fact that my grandfather Lovett made a vigorous financial comeback and accumulated over $100,000 after he was seventy (no mean achievement in terms of the buying power of the dollar at the start of the twentieth century). My father and my uncle were also fairly active investors—albeit with mixed success—and I intended to be the same. My first venture took the form of putting several hundred dollars in a wild-cat oil scheme on the advice of a friend in my Princeton class of 1920. Almost before I could calculate my hoped-for profits, however, the venture failed, and I had learned a lesson far more valuable than the small amount it had cost me.

Even this lesson was not enough for a bold and optimistic youth, however, and I continued in a small way to "play the market" actively after graduating from Princeton. On balance, helped by a strong upward tide in the general level of stock prices, I made profits, which by 1926 amounted to a figure which might have been regarded as "considerable" for a young man just trying to get himself established in the world. It was then that I thought I had a chance to "get rich quick." I learned that Phila-

delphia Electric Company was about to merge with United Gas Improvement Company, and felt that here was a real chance for a sure profit. I put up all my money as a 10 per cent margin to buy Philadelphia Electric, borrowing the remaining 90 per cent. The merger fell through, and the price of Philadelphia Electric stock dropped almost in half in a few days. Only a family loan kept me from insolvency. Once more I learned first-hand what was meant by "investment risk," and I have never borrowed since.

But I am getting a bit ahead of the story. As I was accumulating actual investment experience, I was also building a personal foundation of statistical, analytical and research experience. (If I was at first remiss in failing to apply this knowledge to my own personal financial affairs, I had only myself to blame.) After Princeton, I took a series of accounting courses, and became a certified public accountant, one of the youngest C.P.A.'s in the state of Pennsylvania. I did this in order to understand better the financial figures that went into a company's profit-and-loss statement. I knew I had to develop talents in the area of statistics and research, and I wanted to use these talents constructively to help others. More than ever, my accounting training made me conscious of the help that financial professionals could give to people who needed management for their business and their money.

My first job was with the firm of Peat, Marwick and Mitchell, certified public accountants. I was ambitious (perhaps even brash); and although I hated the routine detail, it was good discipline. After a year's time, I asked the firm if my abilities and efforts merited an increase in my salary (then $125 a month). I was told in no uncertain terms that, as far as wages were concerned, I was overpaid. As to the quality of my work, my boss said, "We are not particularly smitten with it!" Showing the "lion-in-a-cage" impatience which seems to be characteristic of me, I went with Haskins and Sells, another fine C.P.A. firm, and negotiated a $50 monthly increase in the bargain.

While my accounting background was in many respects essential to what was soon to become my life career, five years of working for large accounting firms convinced me that I wanted

something more. I wanted to do much more than the routine dollars-and-cents, debit-and-credit and balance sheet auditing in the public accounting field. I was much more interested in the application of what I found—how it could be used profitably; how to help companies earn more profits; how to help people keep their money and make it grow by investing in stocks and bonds. At the same time, I discovered that the feeling of security that came from working for a large firm was not enough for me. I wanted to start my own firm, to be my own boss. When I expressed these views to my superior at Haskins and Sells, his reaction was clear and simple: "Morgan, you'll never amount to anything!" I was just obstinate enough to do everything in my power to prove him wrong.

My own accounting firm, Morgan and Company, opened its doors for business in 1925. One of the series of lucky breaks that seemed to occur at important points in my career was not long in coming. I went out to solicit new accounts, and—through an old Princeton friend—made an appointment to meet with representatives of the Ludington family, one of the most prominent families in Philadelphia, with extensive financial interests. The day before I met them, they had received what they considered to be an exorbitant bill for accounting services from a large national firm. They wanted a new accounting firm and—as a result of the cold canvass I had providentially made—they said, "Let's give the job to Morgan." My newly-organized firm had won its first major account. Little did I know that, in a few short years, the Ludingtons would be among my best clients, would encourage me to add tax and investment counseling to my accounting service, and ultimately would put up a major portion of Wellington Fund's initial capitalization of $100,000.

It was not long before investment advice and tax counseling became the dominant part of my business. In these areas, I was able to mix whatever imagination and venturesomeness I had with the analytical experience and accounting training I had gained. One of Philadelphia's large banks (now the First Pennsylvania Banking and Trust Company) proved to be a valuable source of contacts for me, when the bank hired me "part-time" as

a tax expert to advise their clients on the proper filing of federal income tax returns. Long lines of people quite literally formed at my temporary desk in the Pennsylvania Company as the March fifteenth tax deadline approached each year. And these were all people of substantial means; they had to be, in order to have tax problems, for a married couple with $10,000 of income in 1929 paid a tax of only $52. (The tax liability of a married couple with $25,000 of income was $838 in 1929; today, by way of contrast, it is $6,268.) In looking over their tax returns, I naturally asked about their investments: "Why don't you sell that stock and buy this one?"

As a result of my interest, many of the fine contacts I made in tax work for the bank soon were calling at my office for more help and advice. I was of course glad to advise these people, not only on their tax affairs, but also on the handling of their investments, because this was my first love and still is. At the same time, a recurrent theme kept repeating itself over and over in my mind: There must be a better way to handle investment management than to advise a large number of individual accounts. There must be a better way to diversify investments than the purchase of only a few securities. There must be a better way to handle the problems of safekeeping a large number of securities, clipping hundreds of bond interest coupons, recording multiple purchases and sales and dividends. There *must* be a better way.

The solution to the problem was obvious: if substantially the same investment problems were shared by all of these individual accounts, why not consolidate them into a single fund?

Banding together for strength, entrusting specialized tasks to specially trained persons for efficiency, and spreading risks over a number of different ventures for safety: these principles are nearly as old as civilization. I had no monopoly on them. Indeed, applying them to the investment field was not even a "new" idea, dating back to at least 1822, when King William I of the Netherlands formed the earliest known investment company. The thrifty Scots further developed the idea in the mid-nineteenth century, and as early as 1875, an English barrister named Arthur Scratchley

(in his "Treatise of Associations for Provident Investment") wrote as good a definition of a mutual fund as has ever been written:

> Whether a man has a large or small sum to invest, he runs the risk of making a mistake in his individual purchase from not understanding the peculiarities of the stock; whereas, if he subscribe to a general fund, which (assisted by the advice of persons of experience in such matters) would divide its purchases carefully among a selected variety of investments —each member would derive greater benefit with much security from loss by the distribution of the risk over a large average.

In the mid-1920's, the unique American promotional genius began to apply itself to the investment company field. Whereas up to 1926, perhaps 20 investment companies were formed each year, the late twenties saw a veritable explosion of the so-called investment trusts: in 1927, 140 were organized; in 1928, 186; and at the climax in 1929, 265 such trusts came into being. (Of the 591 trusts organized in this three-year period, however, only 222 were still active at the end of 1936.) This was the era when the sky was the limit, when stocks soared to the highest prices they were to reach for another quarter-century, when speculative fever made people see only the possible profit, not the potential risk, created by the dangerous leverage of a 10 per cent margin.

The investment trusts of those days were known as the "closed-end" type. That is, they would float a large issue of securities to the public at one time, and then "close up" and invest the proceeds of the underwriting. In many respects, these trusts were promotional ventures, and their sales literature (while not quite as exuberant as Grandfather Lovett's) was enough to make us blush by today's standards: "the uncertainty of selecting the profitable companies of the future has been overcome," "an investment protected by 400 seasoned securities," "a proved method of profiting with safety in the constantly increasing growth of the United States."

Stimulated by such catch phrases and the hope to "get rich quick," investors flocked to the closed-end trusts. Many people

in the financial field were amazed at the eager public reception accorded these trusts, which was epitomized by the phenomenal success of The Goldman Sachs Trading Corporation. This trust, organized by one of Wall Street's largest and best-regarded investment banking firms, raised capital of $330,000,000 between December, 1928 and the summer of 1929. Even today, this still stands as the largest such offering ever to take place. Its shares, originally offered at $100 each, soared upward to $222 in February, 1929, despite the fact that the underlying investments were worth only half that much. And here was the basic weakness of the closed-end company: the price of its shares was not "pegged" to the market value of its investments; shares might trade at twice what they were worth (as in early 1929) or half that value (as was the case before 1929 drew to a close).

For this reason, I felt that another type of investment company—the so-called open-end type—was more to my liking. Such companies (and only three or four had been formed by 1929) had an "open" capitalization: they were constantly issuing new shares (at the current asset value of the underlying investments, plus a sales commission) and stood ready to redeem shares from existing investors (also at the current asset value). Perhaps even more important, these companies had a more conservative capitalization than their closed-end cousins. By avoiding borrowed capital, the open-end companies were not saddled with the high leverage that was to prove so perilous in late 1929. I had had long discussions with W. Wallace Alexander, who in 1907 formed perhaps the first predecessor of this type of fund—the Alexander Fund. He pointed out that the open-capital feature virtually required investment in good quality, readily marketable securities, since the list had to be valued daily, and since securities might have to be sold to meet redemptions at any time. He encouraged me to put my ideas to work.

The open-end fund (today known as the mutual fund) also afforded me another necessary advantage: it could be developed over a period of time and therefore didn't require a large initial underwriting. I recognized that Morgan was not Goldman Sachs (J. P. Morgan may have been, but Walter Morgan wasn't). I

therefore realized we could not create a ground swell of public demand for a mutual fund in a short time. We would have to do it the "pick-and-shovel" way: starting with capital from clients who knew what we could do and had confidence in our idea; using what training and abilities we could put together to manage the fund and build a good record of investment accomplishment; and using our promotional aptitudes to attract new investors to join the venture. At first the group would be primarily family and friends, but we were hopeful other investors too would recognize the merit of the mutual fund idea.

I was not brash enough to think that I could do it all myself: no one could. I knew that I had to surround myself with experts —people who knew more than I, and I set out to do this. My first job was to get a securities broker with a good background in security analysis and statistics, and—quite by accident—I found the man I sought right down the hall from my office on the thirteenth floor of Philadelphia's Packard Building. A. Moyer Kulp was an executive in the Philadelphia office of a New York Stock Exchange investment banking firm. He was a thorough student of company financial figures, no easy accomplishment in 1929. For this was the era when corporate facts and figures were available on only a limited basis (usually in a company's annual report) and such basic figures as sales revenues, for example, were considered vital and secret information. Kulp, however, had proved good at selecting stocks for profit, and he also had a remarkable knack for sensing market trends, and timing purchases and sales accordingly.

The Kulp-Morgan team was not well-known (if it was known at all) and I decided we needed a "name" in our group. Without hesitancy, I asked C. Stevenson Newhall, then executive vice-president and later president of the Pennsylvania Company, to join our initial investment committee. Not surprisingly, he declined. But he thought enough of the idea to say that he would permit a man he considered the bank's most competent investment management officer to serve on our committee. And so Brandon Barringer, a truly remarkable student of stocks and bonds and business trends, joined our small original Wellington

team. His range of knowledge, his breadth of view, and his intimate familiarity with the nation's business and credit structure—all of these were to prove invaluable in the difficult months ahead.

The phenomenon known in Wall Street as a "bull market" had been with us through most of the 1920's. From a low of 65 in 1921, the Dow-Jones Industrial Average of stock prices had risen to 300—a five-fold increase—by the end of 1928. Not only had stock prices risen, but the trading in stocks reached a level of frantic activity that was never seen before, nor again. Nineteen-twenty-nine was the only year in our history when more than 1.1 billion shares of stock changed hands. What a contrast with today! In the course of a typical recent year (in the 1950-1963 period), one share was traded for every eight shares of stock oustanding. In 1929, by comparison, *nine* shares were traded for every eight outstanding. The public (with the help of enormous margin accounts) was in the market and eager for profit.

Confidence begets confidence. As stock prices soared, the profits that investors were making—on paper—encouraged them to buy more stocks, and to push prices even further upward. People borrowed increasingly large amounts, in order to pyramid their gains on thin margins. Speculation was rampant early in 1929, and the few words of caution that were uttered fell upon deaf ears. Nevertheless, Abe Kulp, Brandon Barringer and I all felt that our proposed fund should be managed conservatively. To a man, we felt that stock prices had outstripped any reasonable appraisal of future prospects. Many stocks were selling at fifty to a hundred times earnings, and the wild market was approaching the edge of unreality. As the Fund commenced operations, therefore, we came to a conservative and common sense conclusion in an era of speculation: that the prices stocks commanded were just "not in the wood"; hence we should not invest the Fund's resources merely in stocks as the other investment trusts had done. Rather, we should have "an anchor to windward" in the form of a large position in fixed-income securities such as bonds and preferred stocks. By this conservative investment decision, what came to be known as the "balanced fund" concept was born. This "balance" was what proved to differentiate the Fund from

its major competitors for thirty-five years, and made Wellington Fund unique.

Wellington Fund, however, was not the original name of the Fund. We initially felt that we needed a name that would fit the times, a name that called forth the imagery of American industry, one that would give investors a picture of the power of our growing economy, one that would promise investors what they wanted. And so the Fund was first named: Industrial and Power Securities Company.

Raising the initial capital of the Fund proved—by reason of my good fortune in having a fair number of investment counsel clients—to be less of a problem than I expected. I was able to put up $25,000, mainly in the form of securities I had received in payment for several major auditing and consulting jobs. The Ludingtons subscribed $25,000 initially, and the remainder of the $100,000 starting capital came from three other investors with whom I had close family, business or client relationships. These people placed their trust and confidence in our small management team, they believed we were doing something that was worthwhile and should prove profitable. They gave the initial impetus to the new financial institution that was to prove durable and successful beyond our wildest dreams.

On July 1, 1929, Industrial and Power had slightly over $100,000 of assets and began operations. It is interesting to review the Fund's first journal, which I personally wrote in longhand. (This was long before the automatic computing equipment we use today.) It shows that most of the early investors contributed securities rather than cash to the Fund. These securities were generally sold rather promptly, and at prices that were soon to look exceptionally high. Curtis Publishing, for example, was accepted by the Fund at a value of $123 per share and sold at $124. Within five years, it traded at $5 per share. We sold U. S. Steel at $258, only to see it drop to $24 in 1932. Guaranty Trust was sold at $679; it was later to fall 500 points.

Early in the summer of 1929, about 75 per cent of the Fund's modest resources were invested in common stocks. Although this "balance" was extremely conservative in the light of the stand-

ards of those ebullient and effervescent days, our group still felt uneasy; after all, we were dealing with money that many of our clients could not afford to lose. So, as stocks continued to surge hysterically upward, we continued to sell them, and in September, 1929, as the Dow-Jones stock average reached a record peak of 381, we had cut back to about a 40 per cent common stock position. In other words, at the peak of common stock prices, some 60 per cent of our resources were invested in fixed-income securities. Then came the crash.

It was first gradual, then electrically sudden. By mid-October, the stock price average had eased away from the early September peaks, to about the 350 level. In the following week, it dropped another 25 points, but the daily volume of shares traded stayed at the usual three-to-four-million level. The next week saw another 25 point decline, and rising volume hinted that storm clouds might soon appear. On the first day of the following week (October 28) the storm really hit us. In a single day, the Dow-Jones Average dropped precipitously 40 points amidst the turmoil of nine million shares traded, and panic spread throughout Wall Street and the nation, as millions of Americans watched in horror as the ticker tape reported lower and lower market quotations. And the worst was yet to come. The next day, Black Tuesday, October 29, 1929, saw sixteen million shares change hands, a record that exists to this day. In the panic, the Dow-Jones Average dropped another 45 points to 212—down almost 40 per cent from two weeks earlier. Although the average recovered slightly by the day's end, the "new era" philosophy was dead. The concepts that the stock market was a one-way street, and that America's growth insured corporate profits were "out the window," as a result of the sweeping financial crisis of October, 1929. The bubble had burst.

In retrospect, we had chosen the worst time in the financial history of the United States to launch a new investment vehicle. Yet in another way, what good fortune we had to launch a conservative fund just a few brief months before the merits of conservative investing were to be so amply demonstrated. And how fortunate we were that the perception, the ability, and of course

the good luck of our management team in selling stocks in a substantial way before the crash were vindicated by the events of that tragic October.

As a result of our conservative philosophy and our management moves, the Fund's asset value demonstrated a resistance to decline, a relative stability of value, unmatched by virtually any other investment trust or mutual fund in the last half of 1929. New capital had started to flow little by little into the Fund and as our first year ended, total assets were $195,000. We were on our way!

The old adage that "the first year is the hardest" gave us confidence in what lay ahead as 1930 began. The nation's confidence, however, had been too severely shaken for a rapid return to normalcy. This lack of confidence on the part of businessmen, investors, and the public proceeded to make itself felt in the early 1930's, and the stage was set for the worst economic depression in America's history.

The economic and market conditions of 1930-1933 were disastrous. The economy went further and further down into the depths. Total U.S. national income dropped by more than half—from $88 billion in 1929 to $40 billion in 1933. Unemployment soared from one-and-a-half million people in 1929 to almost thirteen million in 1933—one out of every four in America's labor force was out of work. Responding to these events, the stock market continued its decline. As 1930 began, the Dow-Jones Average was at 250; at the end of 1930, 165; at the end of 1931, 78; and at mid-1932, 41—a 90 per cent decline from the 1929 high. The decline was steady and unremitting, with few upward surges to break the monotony. I can recall talking to Abe Kulp on the telephone after the market opened each day and asking, "How's the market?" And each day (or so it seemed) the answer came back with all of its discouraging sameness: "It's down again."

Although more economic adversity was still to come, by mid-1932 the worst was over for the market. Even the Roosevelt bank holiday—which dried up billions of dollars in the nation's money supply—followed by the United States reducing the gold value of the dollar, was not enough to drive stocks below the earlier bot-

tom. Stocks rallied late in 1932, and moved upward in 1933 and—after a consolidating phase in 1934—again in 1935.

Our management group—like most other investors, institution and individual alike—did not foresee the full extent of the Depression. But we did better than most, and, despite the decline in the Fund's asset value, our dividends held constant during the three-year market drop. Substantial cash reserves had been put back in the market after the 1929 break, and it was not until mid-1931 that we had learned our lesson. We re-accumulated substantial cash reserves late in that year, and were rewarded by a relatively favorable showing in 1932. The conscious need for changing our common stock position in anticipation of possible business and market changes, however, was to stay with the Fund all through the years. We were determined that "balance" would not mean a static investment position. Rather, balance would be dynamic. We would aim to provide more protection (through larger cash and bond reserves) if markets appeared high; we would attempt to build up profits (through a larger common stock position) if stocks appeared undervalued. We knew that the future was too unpredictable, the markets too sensitive, to bat 1.000 in our efforts. However, we believed that as experienced professionals, we could turn in a better batting average (or performance record) than the average investor could earn for himself.

Investment management problems were not the only hurdles we faced in the early 1930's. The key area of distribution was also a daily challenge. Our initial aim had been to build a record for the Fund, and thereby attract new investors to purchase its shares. We had in fact built the record, a record of conservative management which preserved share values relatively well in the light of the extraordinary economic decline we encountered. Now there was the problem of selling this record to the public.

It is a substantial understatement to say that there were fewer people who wanted to make an investment—even a relatively conservative one—in the early thirties than there were in the late twenties. It was all too close to the truth to say, as many said, that "you can't even *give* an investment trust away." Yet I called on

stockbrokers all over Philadelphia trying to spread the gospel of the balanced fund. It wasn't easy. In some firms, we couldn't even get in to tell our story. In others, our story fell on deaf ears. On occasion, I was politely asked to leave or given a mighty cold shoulder. But we continued our efforts because of the firm conviction that the Fund could grow to substantial size only through the efforts of independent securities firms, whose representatives would recommend it to their clients. We had to win their respect, confidence and good will.

We even considered the possibility of building sales on our own. In 1931 we formed a retail selling organization (W. L. Morgan and Company) in addition to the management company (Wellington Corporation) we had formed two years earlier. Just as the management company provided both the Fund and our individual clients with administrative and investment advisory service, so the sales company handled both the distribution—at wholesale as well as retail—of the Fund's shares, and a general brokerage business. We recognized that a fund does not grow by itself, but only by years of management and sales effort on the part of the separate sponsoring company.

The early distribution efforts were mostly a "one-man" job, however, and my hands were so full with the whole complex of my activities—accounting, investment counseling, tax work, and sales—that the efforts were not crowned with notable success. Nevertheless, sales did come along gradually, as the Fund's record and our management reputation began to gain recognition. Each year, investors subscribed to some 20,000 new shares, and by the beginning of 1934, Fund assets had crossed $500,000. That year, furthermore, marked a major forward step for us. An able Philadelphia stockbroker named Wallace M. McCurdy became interested in the Fund, and was impressed with its record. His firm, Thayer, Baker & Company, began to recommend the Fund to its clients, and the first crack opened in the stone wall that had been confronting our distribution efforts.

During the next year (1935), two events occurred that would leave their impression indelibly on the Fund, and launch it on its way to the heights ahead—heights that were by no means vis-

ible at that time. The first was the Fund's name. I mentioned earlier that the name "Industrial and Power Securities Company" was chosen because it was in tune with the twenties. For the thirties, however, it was rather off-key. The trials and tribulations of the closed-end trusts, many of which had gone completely and forever underwater in the cataclysm that shook the economy, had given the over-used "industrials" a bad connotation. "Power" in particular was bad news, as a result of collapse of the utility holding companies. Perhaps even more important, no one could remember our name, and more and more people began to refer to Industrial and Power Securities as "a Wellington fund"; that is, one of the accounts under Wellington Corporation management.

I had chosen the name Wellington for the management company for a variety of reasons. I had been a student and admirer of the life of Wellington—"the Iron Duke"—for years, and was fascinated with the history of his military campaigns. On trips to Europe in 1926 and 1928, I had visited Apsley House, his London home, and had tramped over many of his battlefields, most notably Waterloo. My admiration for the Iron Duke carried over to many things English, especially antique silver and furniture. The Wellington name, furthermore, had not been used by other American financial institutions, which was not the case with the well-known United States heroes—Washington, Jefferson, Hamilton, Lincoln, and others. Most important of all, Wellington was a name easy to remember; it was distinctive; it had a magical ring to it, a sort of indefinable air of quality about it that made it almost perfect as a name for a conservative financial organization.

There is no question in my mind that the choice of the Wellington name was one of the cornerstones of our success. Since the name was easy to remember, it was well-suited to help us accomplish one of our major early objectives: to make Wellington a household word like "Cadillac," "Coca-Cola," or "Tiffany." Curiously, the timing of the Fund's name change was brought about by another of the lucky breaks that seemed to follow my career. Early in 1935, with our distribution efforts progressing surely—if slowly—I met a man who turned out to be one of the most re-

markable, dynamic and able sales executives in the history of the mutual fund industry.

A. J. Wilkins walked into my office one day, introduced himself, and said he was interested in selling shares in our Fund. He knew of its fine record, he had a varied and successful background both in the general securities field and in the retail selling of mutual funds, and he wanted to set up a monthly purchase program for investors, using our Fund as the investment medium. No one had to be a genius to see the magical mathematics involved if thousands of individual investors purchased $10, $25, or $100 of our shares each month. Fortunately for us, several other fund distributors either hadn't recognized Al Wilkins' extraordinary ability or hadn't foreseen the intrinsic merit of his plan. However, we all were impressed with both the man and the idea, especially with his talent for salesmanship and his aggressive attitude. When I told him how many shares we had sold in the previous month (it was about 1,000) he replied: "Why, you're not even in business!"

It was Al Wilkins, too, who helped precipitate the change in the Fund's name. He shared our reservations about "Industrial and Power," and strongly urged that we choose a new name that would identify the Fund with the management company, as we had been doing to some extent in our reports and literature. He thus shared my enthusiasm for the Wellington name, and, with this meeting of minds, the decision was easily made: "Industrial and Power Securities Company" became "Wellington Fund, Inc.," on July 11, 1935.

The driving force of Wilkins soon made itself felt. Almost overnight, he created a retail selling organization, and sales moved sharply forward. Instead of the 10,000-shares-a-year pace of the early thirties, we were suddenly selling 80,000 shares a year, and then 100,000 shares. The distribution problem had been solved by the entry of Al Wilkins on the Wellington stage, just as Kulp-Barringer had appeared to help solve the investment management problem six years earlier. If it had not been for Al Wilkins, we would probably never have grown as fast as we did.

Fortunately, the basic decisions of the 1928-1935 period were sound decisions that favorably shaped the Fund's future. We had selected a sound form for it: the open capitalization, which permitted the constant issuance of new shares. We had chosen an unusual (for those days) philosophy that made it unique: the balanced concept. By the addition of able key executives, we had successfully attacked the two basic areas in which we needed to demonstrate competence: investment management and share distribution. We had established "a name to remember when investing," a name that would in fact be remembered by hundreds of thousands of investors: Wellington Fund. And as 1935 drew to a close, the first major milestone was crossed: Wellington Fund assets exceeded $1 million.

"Never look back. Something might be gaining on you." It is risky to ignore the obvious wisdom of this warning (generally attributed to the remarkable baseball pitcher Satchel Paige). Nevertheless, to complete the Wellington story, a brief review of a few major events subsequent to 1935 is necessary. For, although in many respects the nearly three decades that followed simply represented building on the sound foundation established in the pre-1935 era, the growth of the Fund from $1 million then to some $1.6 billion now is too large to be accounted for in "Topsy" terms. Indeed, on many a single day in 1963 investors purchased $1 million or more of Wellington Fund shares; in an average recent month purchases totaled $12 million, or greater than the Fund's assets in 1944.

Wellington Fund didn't "just grow." Its growth occurred in a healthy economic climate, as the nation rose out of the ashes of the Depression and climbed to a mature and healthy prosperity. Reflecting this prosperity, common stock prices continued a steady advance from 1935 to the current levels. To be sure, there were setbacks along the way, and the market was shaken by major declines in 1937, 1940, 1946, 1957, and 1962. Each of these drops was sharp, severe, and difficult of prediction, but none came close to matching the depth or duration of the 1929 holocaust. In each instance, stock prices (as measured by the Dow-Jones Average) recovered and matched, then exceeded, the previ-

ous high levels. As 1963 ended, the average had climbed to about 760. (You will recall that the 1929-1932 range was 381 high, 41 low. This 381 high was not penetrated again until 1954.)

The effect of the prolonged bull market lasting over three decades (1933-1963) was to give investors confidence in the merits of common stock investing, confidence that investing in American industry offered a potential opportunity for growth of capital and income. By the same token, each intervening market setback, however short-lived, served to convince investors that investment risk was more than illusory; it was something real to contend with. In other words, this long period in many respects provided the perfect climate for the growth of a balanced fund, a period in which its merits were tested and affirmed.

In our effort to build public acceptance of the mutual fund idea (and particularly for Wellington Fund), we recognized the need to continue the pioneering early efforts in the area of sales promotion. We worked to develop the good will of the press, in order to build public confidence. We always endeavored to be "first" in providing such things as attractive sales literature, a color motion picture about the Fund, and readable and interesting shareholder reports—all presented in crisp and accurate writing style and with the elementary idea that a simple chart or graph is worth a thousand words. We wanted investors to understand what investing was all about. One particular innovation—very advanced for its time (1940)—was our decision to print all of our literature in a deep shade of blue ink in order to differentiate it from competitive material. This, too, became part of our corporate image, and to this day investment dealers continue to refer to "Wellington blue."

The good fortune we enjoyed in having men like Abe Kulp and Brandon Barringer to head up the investment management group and Al Wilkins to lead the sales team also continued in the later years. By far the most notable example of this good fortune was our finding a man to spark our activities in the third key area of our company: general corporate administration, including representing Wellington at the industry conference table and before the federal and state governmental agencies. (These activities in the

regulatory area became particularly important at the time of the Investment Company Act of 1940, and again as a result of the 1963 Securities and Exchange Commission study of the securities industry.) Like most of the "rugged individualists" of the early pioneering days of the mutual fund industry, I was probably too competitive and combative to play a key role as an industry spokesman. Instead, this vital job was handled for us by a man who is today generally acknowledged as the most respected figure in our industry: Joseph E. Welch. Welch came to Wellington in 1937 after experience and training with the Federal Reserve Bank of Philadelphia, and a local stock exchange firm. He served us first in a variety of routine financial duties, but soon his extraordinary ability, intelligence, integrity, and judgment became apparent—first to us and later to the industry. By 1949 he was executive vice-president of both the Fund and the Management Company, and in 1963 it was with great pride that I turned over to him my responsibilities as president and chief executive officer of Wellington Management Company. There can be no question of the invaluable contribution that Joe Welch has made to the development of Wellington Fund.

But, no matter how important looms the contribution of a large number of able individuals, a sound financial institution must be more durable than the individuals who direct its affairs during a given period, however long, in its history. It must maintain its basic character; in Wellington Fund, this meant a continued dedication to truly conservative investment principles, no matter how tempting the lure to abandon them in the search for even larger rewards. We have never deviated from our constant endeavor to achieve the Fund's three basic investment objectives: (1) conservation of capital; (2) reasonable current income; (3) an opportunity for possible capital gains without assuming undue risks.

We could not, of course, assure that these three investment objectives would be achieved in any given period: no responsible investment adviser can promise future performance. Nevertheless, these goals served as a constant guide to our investment decision-making, and we strictly adhered to them through an al-

most unbelievable variety of business and market conditions. In this connection, I am sure we have done a better job for the investor than he could have done for himself. The investors in the Fund know it, as witnessed by the fact that the rate of shares tendered to the Fund for redemption each year has traditionally been among the lowest of any fund in our industry. This "index of shareholder satisfaction" (so very important by reason of the open-end character of a mutual fund) has been a constant source of pride to us, and it will be a challenge to continue to maintain this confidence.

The thousands of investment firms all across the United States that have recommended Wellington Fund to their clients have also played a key role in the Fund's growth and success. These firms helped to bring to the American public the message that conservative investing offers the potential of real rewards. Not a one-way street to overnight riches, to be sure, for investment risk is always with us, no matter how it is moderated by diversification and balance. But these investment dealers helped millions of Americans to realize that absolute safety simply does not exist (for example, the rising cost of living has reduced the buying power of the dollar in a savings account by one third or more during many decades), and convinced them to take a moderate risk in the search for reasonable income and possible profit. By placing their clients' money in our hands, these firms have demonstrated their confidence in us, knowing that we are trustees and experienced managers, and that we will continue to carry on these duties with a high sense of fiduciary responsibility.

It has been this sense of responsibility, together with our constant belief in conservative investing, that has helped us bring Main Street to Wall Street. We have enabled the small or average investor to combine his invested savings with those of many others and own a share in American industry—not on the speculative and highly leveraged basis that Main Street came to Wall Street in 1929, but on a sound financial footing, with each investor's stake represented by a hundred or more stocks and bonds, securities generally chosen for their high and improving investment quality. Today's mutual fund investors—numbering more

than three million Americans with some $24 billion invested in mutual fund shares—now include persons from all walks of life, from all over America, from all income levels. Included are both institutions which want professional management and diversification, and individuals who have little knowledge of investing and who have neither the time, inclination nor ability to "watch" the stock market. For them, Wellington Fund, and mutual funds generally, represent a sound approach to the problems of future retirement, children's college education, and income for today's rising living costs. The conservative policies of the Fund, as well as the conservative goals of its shareholders, are a far cry from the high leverage investing and "get rich quick" objective of 1929. The 1964 Wellington Fund investor is dramatically characterized by this letter we recently received:

> I am exceedingly grateful for the day a friend prevailed upon me to join Wellington Fund. I bought 5-10-15-20 and 25 shares when I could in the 1940's. I am a retired nurse who didn't know a big salary until the last six years of working, but through this welcomed suggestion and by reinvesting—I have enough from these dividends to pay my rent.
>
> I am not envious of the brains of this Fund. Instead, I count my blessings and am grateful that such men saw fit to start and do things so that persons like me can invest small sums which grow into a realization of future living.
>
> I well know that 15% of the world build and establish industries and give work for the rest of the world. While I could use more money, I simply thank God for such men who establish an avenue in which I have been able to travel more comfortably in my 67th year, and as a widow of thirty years who educated a daughter quite finely without borrowing, through knowing one can accomplish one's needs if one is not envious, if one applied oneself to honest work, and above all if one saves instead of squandering.
>
> My fervent hope and prayers are with the judgement of these fine gentlemen who have a grave responsibility, and a full thanksgiving for my 1,440 shares in Wellington Fund.

The Wellington Fund story, of course, is but one chapter in the extraordinary anthology of the mutual fund industry. Competitive firms, staffed by able managers, dynamic sales executives, and vigorous innovators, also share the credit for their equally good work and pioneering efforts in the development of the mutual fund idea. It was our industry in the aggregate—not any one company and certainly not any one man—that has been instrumental in furthering America's economic democracy by bringing Main Street to Wall Street. The concept of conservative balance that was pioneered when Wellington Fund was born some thirty-five years ago was simply one tributary in the river of mutual fund progress that brought to the average American family a modern method of investing. It is this investment method that will help to shape the financial future of millions of Americans in the years to come.