

## NEWS RELEASE

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# ICI Chairman Cautions Against Complacency, May 1999

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Washington, DC, May 20, 1999 - Investment Company Institute Chairman John J. Brennan today cautioned mutual fund executives against becoming complacent as a result of the industry's accomplishments and to vigorously respond to challenges and opportunities as the new millennium approaches.

"Complacency is a dangerous enemy. It is the enemy of competition; it is the enemy of dynamism; it is the enemy of growth and innovation," Brennan, also Chairman and CEO of The Vanguard Group, said in [remarks](#) opening the Institute's [General Membership Meeting](#). "Vigorously and thoughtfully responding to existing challenges and anticipating new ones are requirements for our continued success," Brennan said. "Using our energy and resources to capitalize on opportunities as we move into the new millennium is absolutely essential if we are to maintain a vibrant, growing, and, most important of all, trustworthy industry for ourselves and, especially, for our shareholders."

Brennan said the mutual fund industry responded to several challenges during the past 12 months, including issues relating to investor awareness in periods of market volatility, fund expenses, competitiveness, and governance.

John J. Brennan at the 1999 General Membership Meeting.

Extreme volatility in financial markets, including the 20 percent decline in the U.S. stock market during the third quarter of 1998, tested the industry's efforts to educate shareholders about the risks and rewards of mutual fund investing, Brennan said.

"The good news is that our shareholders met this volatility challenge extremely well—there was only minimal movement of money out of stock funds. And, quite appropriately, investors were well-rewarded for their discipline by the market's sharp recovery in the subsequent eight months," Brennan said. "Obviously, we can never be complacent about the need to help our investors become knowledgeable about the issues and risks that they will encounter as they pursue the investing rewards that have been so bountiful in recent years."

Brennan added that market volatility was also a test for mutual funds themselves. He cited statistics showing that by the end of 1998's third quarter, 1,600 of the country's 7,000 or so listed stocks had lost more than 50 percent of their value while just seven mutual

funds—out of about 3,000 equity funds and more than 7,000 funds overall—had equivalent losses. "At a time when substantial efforts are being made to seduce ordinary investors into becoming day traders, this is an especially powerful reminder of the value of investing through mutual funds," Brennan said.

Legislators and government regulators also posed other important challenges during the past year. "With respect to the value of the products we offer to our clients and the level of competition within the industry, the issues are quite simple. First, do our investors have a broad range of investment options, shareholder services, distribution methods, and prices to choose from? Second, are the costs of investing disclosed clearly enough so that our clients can make appropriate choices? I believe the answer to these questions is an unequivocal yes," Brennan said.

Brennan noted that the role of directors in the mutual fund industry attracted heightened attention during the past 12 months. In February, for example, SEC Chairman Arthur Levitt asked whether independent directors are meeting the needs of their constituency—the mutual fund investor. "The challenge laid out by Chairman Levitt is a complacency check for us. Our unique system of governance—codified in the Investment Company Act of 1940—has served our shareholders well for nearly 60 years," Brennan said. "Sixty essentially scandal-free years is a record of prudence unmatched by any other financial services business in this country and the corporate governance system has played an important role in that fine record.

"We could look at this governance system and say, 'It ain't broke, so why tinker with it?' I assert that such a response would be a major mistake," he said. "It would be a victory for our foe, complacency. In fact, the success of our existing system of governance presents us with a heavier burden—a larger challenge—to constantly review and improve the stewardship of our shareholders' assets."

Brennan also addressed the increasing importance that Americans are placing on saving for retirement. "The political presence of the Baby Boom generation and the change in fiscal dynamics from large deficits to nominal budget surpluses present the opportunity—I would even say the obligation—for our industry to lead the way in developing new, enhanced savings and investment opportunities for our shareholders," Brennan said.

Noting that the U.S. savings rate last year was at its lowest level ever, Brennan called upon the fund industry to increase its efforts to educate Americans about the importance of saving and investing. "The expression 'I'm letting the market do my saving for me' has become prevalent," he said. "I believe such complacency can and will be damaging to our clients, and to us as an industry, if we don't take an even more active role in educating our investors about the need for savings and about realistic return expectations."

Brennan highlighted several legislative proposals to enhance saving and investing opportunities, including the expansion of limits on 401(k) contributions, reinstatement of universal tax benefits for IRAs, increased contribution limits on education IRAs, and opportunities for those who have been out of the workforce to "catch-up" on retirement contributions and savings. "Any one of these measures would be beneficial to our clients, and each can do much to improve the savings and investment climate in the United States," he said.

"We have a great past and a challenging future full of tremendous possibilities and responsibilities," Brennan concluded. "I have no doubt that if we focus our attention on our

two primary assets—our reputation for integrity and our loyal clients—we will truly remain great for another 75 years."

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