expected, particularly if the increase in asset size is caused by larger numbers of accounts or amounts of non-investment-company clients' assets.

Reference to table VIII–52 above indicates that in the case of advisers managing only investment company assets no systematic relation occurs between the "other salaries" expense ratio and the size of assets managed. The same table indicates that in the case of advisers handling non-investment-company accounts also the ratio increases as the size of assets managed increases. Apart from the smallest size class in which, as indicated earlier, losses occurred, the "other salaries" expense ratio increased consistently from 17.6 percent for the second smallest size class of assets, $10 to $50 million, to 33.3 percent for the largest size class, assets in excess of $600 million. Table VIII–53, on the other hand, indicates that this positive relation between "other salaries" and the size of assets managed is clearly defined only for those advisers where the non-investment-company clients account for a very large part of their total operations, that is where the income from such clients accounts for more than 80 percent of their total incomes. In this case the ratio rises sharply from 13.4 percent for the smallest relevant size class of assets, $10 to $50 million, to 44.6 percent for the largest class, assets in excess of $600 million.

Salary payments to directors and officers, on the other hand, are inversely related to the total size of assets managed, as summarized in table VIII–54. It appears from this table also that part of the explanation of the higher operating ratios for advisers managing non-investment-company assets is found in some cases in larger salary payments to officers and directors. In three of the largest six size classes in table VIII–54, for example, the relevant expense ratio was higher for those advisers managing non-investment-company assets than for those managing investment-company assets only. While the relationship is inconclusive in table VIII–54, it will become clear from the following analysis of costs per dollar of assets managed that in general the advisers whose activities are confined to the management of investment-company assets do incur relatively lower expenses for officers' and directors' salaries.

TABLE VIII–54.—*Directors' and officers' salary expense ratios of corporate investment advisers, by size of total assets managed, 1960–61*

Total assets managed (in millions)	Directors' and officers' salaries as percent of total income	
	Investment company clients only	Investment company and other clients
0 and under $1	59.7	(1)
$1 and under $10	53.8	38.9
$10 and under $50	23.9	49.5
$50 and under $150	28.5	15.0
$150 and under $300	15.9	32.2
$300 and under $600	16.6	26.1
$600 and over	12.9	8.4

1 Not available.

From the foregoing analysis the conclusion has emerged at many points that the cost of generating a dollar of income is lowest in those cases in which the adviser is managing investment company assets only, and that the relevant operating ratios increase as the importance of "other" clients' contribution to the advisers' total income streams increases. It should be pointed out, of course, that these relationships may be simply a reflection of the higher fee scales imposed by the advisers on investment company clients; and of the consequent higher incomes received from investment companies for any given size of assets managed. This follows from the fact that the actual total incomes received are taken in each case as the base or denominator of the operating ratios which have formed the basis of the comparisons. For this reason, a supplementary analysis is summarized in table VIII–55 showing the actual expenses involved in the four principal categories already referred to (salaries of officers and directors, other salaries, total nonsalary expenses, and total operating expenses) in relation to the total amount of assets managed. The data in the table are expressed in terms of cents per $1,000 of assets controlled by the respective size and type classes of advisers.

The analysis shown in table VIII–55 confirms conclusions already stated. Operating expenses are in general higher per dollar of assets managed, as they were previously found to be higher per dollar of income received, in cases where non-investment-company assets as well as those of investment companies are managed. The table indicates that in four out of the six relevant size classes the total operating expenses were higher per dollar of assets where income was received from other clients. The exceptions occurred in the $150 to $300 million and the $10 to $50 million asset size classes, where the total operating expenses were respectively about 50 cents and 70 cents per $1,000 of assets higher in the case of advisers managing investment company assets only. In the four size classes showing the opposite relation, the operating-expenses-to-assets ratio was sharply higher for advisers managing a combination of types of assets, the margin rising to nearly $7 per $1,000 of assets in the $50 to $150 million asset size class, and to rather more than $6 in the smallest size class of assets, $1 to $10 million.

In each of the same four size classes also, the "other salaries" expense per dollar of assets was higher where non-investment-company assets are managed than where advisory activities are confined to investment company assets only. It is noteworthy also that in five out of the six size classes for which comparisons can be made (the exception in this case is the largest size class), salary payments to officers and directors are higher where the advisers are managing combinations of investment company and other clients' assets. This again is probably a reflection of the relatively larger staffing requirements of the advisory organizations which manage a larger number of smaller investment accounts, and instances again an important point at which relative economies of operation may be achieved by advisers who confine their activities to investment company clients. Once more it is noted that the higher operating costs per dollar of assets in the smaller size classes give rise to widening cost margins when the advisers' operations are spread over a larger number of smaller investment accounts.

TABLE VIII-55.—*Operating expenses of 86 investment advisers having corporate form, by size of total assets managed (cents per $1,000 of assets managed), 1960-61*

[IC-Investment companies; OC-Other clients]

Expense items	Total assets managed (in millions of dollars)															
	Over $600					$300 to $600					$150 to $300					
	IC clients only	IC and OC				IC clients only	IC and OC				IC clients only	IC and OC				IC clients only
		Total	Income from OC as percent of total income				Total	Income from OC as percent of total income				Total	Income from OC as percent of total income			
			Less than 40	40 to 80	More than 80			Less than 40	40 to 80	More than 80			Less than 40	40 to 80	More than 80	
Salaries of officers and directors	44.0	25.3	29.8	....	23.5	57.3	67.6	59.3	70.0	83.8	67.3	73.3	119.6	93.1	21.8	....
Other salaries	62.9	100.5	40.1	....	125.0	31.3	82.2	85.0	42.2	94.1	79.6	53.8	103.4	54.8	19.6	....
Nonsalary expenses	59.7	89.2	179.9	....	52.4	37.9	66.4	72.1	44.0	64.7	103.0	70.8	160.1	60.7	21.6	....
Total operating expenses	166.6	215.0	249.8	....	200.9	126.5	216.2	216.4	156.2	242.6	249.9	197.9	383.1	208.6	63.0	....
Number of advisers in class	2	5	2	....	3	4	7	4	1	2	3	5	1	2	2	....
	$50 to $150					$10 to $50					$1 to $10					Less than $1
Salaries of officers and directors	128.3	160.2	96.7	208.6	164.4	117.4	184.3	....	171.5	232.5	246.5	289.3	76.1	331.4	....	378.2
Other salaries	73.2	210.2	10.1	91.3	265.4	86.8	65.5	....	65.4	66.0	72.1	495.7	141.4	565.7	....	89.4
Nonsalary expenses	105.6	601.6	32.0	149.3	776.2	196.0	80.0	....	61.2	150.8	302.7	417.5	95.2	481.0	....	493.2
Total operating expenses	307.1	972.0	138.8	449.2	1,206.0	400.2	329.8	....	298.1	449.3	621.3	1,202.5	312.7	1,378.1	....	960.8
Number of advisers in class	3	6	1	1	4	18	5	....	3	2	16	3	1	2	....	9

Again, as in the earlier analysis, the expenses per $1,000 of assets are divided into three subclasses of investment advisers managing a combination of types of assets. The "other salaries" expenses in each of the six size classes except the $150 to $300 million class increase per dollar of assets managed as does the relative importance of income received from noninvestment company clients. A similar upward progression of the costs-to-assets ratios is found in three of the size classes for the total nonsalary expenses, and in four of the classes for total operating expenses.

Table VIII–55 might be employed also to show an approximation to the relation between the advisers' net income before tax and the size of assets managed. The most usual rate of management fee received by the advisers to the open-end funds is one-half of 1 percent of assets managed. If this notional figure of 500 cents per $1,000 assets is compared with the "Total operating expenses" row of table VIII–55 for cases where investment company clients only are advised, it can be seen that net income before taxes for the five largest asset size groups of funds were, respectively, 333 cents, 373 cents, 250 cents, 193 cents, and 100 cents per $1,000 of assets managed. The smallest two size groups recorded losses of 121 cents and 461 cents per $1,000 of assets. These data will be supplemented in a later section of this chapter by an analysis of the rates of return on net worth earned by the investment advisers.

B. INCOME AND OPERATING RATIOS FOR 15 PARTNERSHIPS AND 4 PROPRIETORSHIPS

It was possible, on the basis of questionnaire replies, to analyze the financial operating data of 15 partnerships and 4 sole proprietorships in a manner similar to the foregoing analysis of 86 corporations. Some difficulties of interpretation presented themselves, however. First, wide variations occurred in the manner in which the partnership financial statements reported owners' withdrawals and salaries. For example, one of the largest partnerships by size of total assets managed reported salaries of partners and officers of only 4.6 percent of total income. This adviser managed more than $1¼ billion assets and received 56 percent of its advisory income from noninvestment company clients. On the other hand, another very large partnership by size of total assets managed reported partners' salaries of $850,000 or 84.7 percent of total income from advisory services, giving rise to a reported loss on operations during the fiscal year to the end of December 1960. This partnership managed slightly more than $850 million assets, and received almost all, 97.3 percent, of its income from its investment company client.

TABLE VIII-56.—*Operating expense ratios of investment advisers having partnership and proprietorship form, as percent of total income, by size of total assets managed, fiscal years ended 1960–61*

Income and expenditures	Total assets managed (in millions of dollars)							
	Over 600, I/C and other clients (O/C)—income from O/C as percent of total income			300–600, I/C clients only	150–300, I/C and other clients (O/C)—income from O/C as percent of total income, 40–80	50–150		
						I/C clients only	I/C and other clients (O/C)—income from O/C as percent of total income	
	Less than 40	40–80	More than 80				40–80	More than 80
Income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expenditures:								
Salaries (other than partners and officers)	17.1	38.1	23.3		38.7	27.7	5.1	26.6
Fees for technical and consultant services	1.5				.9			
Statistical and research	7.6	.2	2.4		.6	1.8	.4	1.2
Sales promotion		1.9	.7		2.7		1.8	
General administrative expenses	4.3	14.7	15.7	31.2	18.7	5.8	3.1	16.9
Special charges		3.9						
Total nonsalary expenses	13.4	20.7	18.8		22.9	7.6	5.3	18.1
Total operating expenses	30.5	58.8	42.1	31.2	61.6	35.3	10.4	44.7
Income (before owners' drawings and officers' salaries)	69.5	41.2	57.9	68.8	38.4	64.7	89.6	55.3
Expenditures as percent of total operating expenses:								
(a) Salaries (other than partners and officers)	56.1	65.0	55.6		62.8	78.5	49.8	59.4
(b) Nonsalary expenses	43.9	35.0	44.4	100.0	37.2	21.5	50.2	40.6
Total operating expenses	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of advisers	1	1	1	1	3	1	1	1

Income and expenditures	Total assets managed (in millions of dollars)							Total all partnerships and proprietorships
	10–50, I/C and other clients (O/C)—income from O/C as percent of total income			Less than 10				
				I/C clients only	I/C and other clients (O/C)— income from O/C as percent of total income			
	Less than 40	40–80	More than 80		Less than 40	40–80	More than 80	
Income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expenditures:								
Salaries (other than partners and officers)	24.4	26.8	9.3	63.9	22.0		29.4	
Fees for technical and consultant services	13.0							
Statistical and research	14.7	.5	.5	2.4	4.1		4.2	
Sales promotion		16.7	6.7		3.4	18.7		
General administrative expenses	9.8	6.2	33.3	40.4	20.3		58.8	
Special charges		3.6						
Total nonsalary expenses	37.5	27.0	40.5	42.8	27.8	18.7	63.0	
Total operating expenses	61.9	53.8	49.8	106.7	49.9	18.7	92.4	48.5
Income (before owners' drawings and officers' salaries)	38.1	46.2	50.2	(6.7)	50.1	81.3	7.6	51.5
Expenditures as percent of total operating expenses:								
(a) Salaries (other than partners and officers)	39.5	49.7	18.6	59.9	44.2		31.8	
(b) Nonsalary expenses	60.5	50.3	81.4	40.1	55.8	100.0	68.2	
Total operating expenses	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Number of advisers	1	1	3	1	1	1	1	19

NOTES.—I/C=investment company; O/C=other clients.

For these reasons the basic financial data covering the partnership and proprietorship accounts, submitted in table VIII–56, employ the concepts of total operating expense ratio before owners' withdrawals and officers' salaries, and net income before such withdrawals and salaries. The subsequent rates of return on the partnership and proprietorship net worth will be defined in an analogous manner. A computation of partnership returns on net worth will also be made after imputing to the partners a salary remuneration based on average directors' and officers' salaries in comparable size classes in the advisory industry as a whole.

Secondly, the partnership and proprietorship replies to the questionnaire did not adopt as nearly uniform a manner of reporting the breakdown of operating expenses as appeared to be the case with the corporations already examined. No attempt was therefore made to present an aggregate or combined income and expense account for these firms as was done for the corporations (tables VIII–45 and VIII–46). The final column of table VIII–56 is accordingly confined to a statement of aggregate operating and net income ratios, defined in the manner indicated above. Thirdly, the difference in the treatment of the partnerships and proprietorships for income tax purposes renders it unnecessary to employ any concept of net income after tax, such as was used in the preceding analysis.

Subject to the foregoing limitations, basic financial data covering the partnerships' and the proprietorships' operations are summarized in table VIII–56. It is seen that a large proportion of the partnerships (13 out of 15) and proprietorships (3 out of 4) managed both investment company and other clients' assets. Of these 16 firms, 6 received more than 80 percent of their advisory income from non-investment-company clients, 7 received between 40 and 80 percent, and 3 received less than 40 percent of their income in this form.

The significant relationship adduced in the analysis of advisers in corporate form, namely that higher operating ratios as there defined were generally associated with higher relative percentages of incomes received from non-investment-company clients, is not confirmed as clearly or as uniformly in the case of the partnerships and proprietorships. In three of the asset size classes in table VIII–56 at least one firm falls into each of the three subclasses dividing the sample according to the percentage of total income received from non-investment-company clients. In the largest size class, containing advisers managing total assets in excess of $600 million, the operating ratio as here defined did rise as the percentage of income received from "other" clients increased, from 30.5 percent for the lowest subclass to 42.1 percent for the highest. Again in the smallest asset size class, containing advisers managing total assets of less than $10 million, the operating ratio rose, from 49.9 percent to 92.4 percent, between the lowest and the highest of the three subclasses already referred to. This positive relation between total expense ratios and the relative importance of income from "other" clients is not confirmed in the remaining size class of assets in which it is observable. The five firms in the $10 to $50 million assets size class exhibited the contrary relation, the operating ratio falling from 61.9 to 49.8 percent over the same three subclasses as previously examined.

It is of interest to notice some further comparisons between the financial data applicable to advisers in the corporate form and those in the partnership and/or proprietorship forms. First, the total operating ratio of the partnerships and proprietorships combined (table VIII–56) was 48.5 percent, giving a net income ratio as here defined of 51.5 percent. The operating ratio for the 86 corporations, redefined in a comparable manner to omit salary payments to directors and officers (see table VIII–46), was slightly higher at 52.6 percent, giving a slightly lower comparable net income ratio of 47.4 percent.

Secondly, it is possible, as indicated in table VIII–57, to compare the "other salaries" ratio (salary payments to others than directors, officers, and partners as appropriate) and the total non-salary-expense ratios for 10 size and type classes of investment advisers of the respective organizational forms. No significant relationship emerges from the comparisons, apart from the fairly weak tendency for the lower aggregate operating ratio for the partnerships and proprietorships referred to above to be caused by relatively lower non-salary-expense ratios, rather than by lower salary ratios. In a majority of the comparisons made in table VIII–57 (in 7 out of 10 instances) the "other salaries" ratio was higher for the partnerships and proprietorships than for the corporations. On the other hand, the total nonsalary expenses were lower for the partnerships and proprietorships in a majority of the comparisons (in 6 out of 10 instances). While this rather weak tendency may indicate the direction in which economies of operation are achieved by partnership and proprietorship managements, strong reliance is not to be placed on such a conclusion, owing to the wide dispersion of the data summarized in table VIII–57 and the small number of instances or comparisons observed.

TABLE VIII–57.—*Comparison of operating expense ratios of investment advisers having corporate form and those having partnership and proprietorship form, fiscal years ended 1960–61*

Total assets managed and source of income	Expenses as percent of total income			
	"Other salaries"		Total nonsalary expenses	
	Corporations	Partnerships and proprietorships	Corporations	Partnerships and proprietorships
A. Assets managed less than $10,000,000:	*Percent*	*Percent*	*Percent*	*Percent*
Investment companies only	15.7	63.9	66.0	42.8
Percent of income from other clients less than 40	13.4	22.0	8.9	27.8
B. Assets managed $10,000,000 to $50,000,000: Percent of income from other clients:				
a. 40 to 80	19.2	26.8	17.9	27.0
b. More than 80	13.4	9.3	30.6	40.5
C. Assets managed $50,000,000 to $150,000,000:				
Investment companies only	16.3	27.7	23.2	7.6
Percent of income from other clients:				
a. 40 to 80	19.2	5.1	31.3	5.3
b. More than 80	20.9	26.6	61.0	18.1
D. Assets managed $150,000,000 to $300,000,000: Percent of income from other clients: 40 to 80	23.0	38.7	25.5	22.9
E. Assets managed greater than $600,000,000: Percent of income from other clients:				
a. Less than 40	11.2	17.1	50.4	13.4
b. More than 80	44.6	23.3	18.7	18.8

C. INCOME AND EXPENSE RATIOS RELATIVE TO THE UNDERWRITING OF INVESTMENT COMPANY SHARES PERFORMED BY 37 INVESTMENT ADVISERS

A division of function occurs within certain firms which provide advisory and management services to investment companies and which engage also in the underwriting and distribution of investment company shares. The performance of such dual functions within a single organization raises questions regarding the relative costs and expense ratios of each of the two lines of activity. Table VIII–58, therefore, summarizes the operating expense ratios of 37 investment advisory firms whose questionnaire replies contained an apparently satisfactory distribution of expenditures between advisory and underwriting expenses respectively. Each of these 37 firms was organized in the corporate form and the data will accordingly be compared with corresponding data for corporate advisers conducting advisory activities only. It should be emphasized, however, that the following remarks in no sense constitute a study of the income and expense relationships in the underwriting activities related to the investment company industry as a whole, and the results should therefore be interpreted with caution. The questionnaire on which this report is based did not request complete financial data of underwriters, and the information at present under analysis relates only to the small number of firms performing the dual functions already referred to. The principal value of the following remarks will lie in the light they afford on the extent to which, if at all, the advisory function of certain firms is subsidizing the underwriting function, or vice versa.

Table VIII–58 indicates that generally high operating ratios prevail in the advisers' underwriting activities, with consequent low-profit margins on income. In four of the six size classes in the table the total operating ratio exceeded 100 percent, rising progressively to 146.4 percent for advisers underwriting the shares of the smallest size class of investment companies. In one of the remaining two classes also, that containing underwriters of investment companies having assets between $300 and $600 million, high expense ratios led to a fractional net loss after income taxes for the class as a whole.[51]

The data suggest considerable variations in the operating experience of the adviser-underwriters included in the present sample. It was found that the total operating ratio for the underwriting function exceeded 100 percent in 16 out of the 37 instances included in table VIII–58, and in two other cases an operating ratio of exactly 100 percent was reported. In 11 of these 16 cases, moreover, the loss on underwriting was not offset by a net income from the advisory activity. In six of the instances the net advisory income was more than sufficient to absorb the underwriting loss, and in the remaining case inadequate comparative data were available relative to the firm's advisory activities. The distribution of these loss experiences, by size classes of the investment companies to which the underwriting activities refer, together with an indication of the extent of effective subsidization from advisory income, is indicated in table VIII–59.

[51] In this analysis the income received by underwriters has been shown net of commissions paid to dealers and outside retailers of investment company shares. In a number of cases, however, the underwriters employ their own sales force for the retailing of shares, and in such instances the salesmen's commissions have been included in the sales expenses shown in the income accounts. The data on which this analysis is based have not distinguished between the amounts of income received from the wholesaling and retailing of investment company shares.

TABLE VIII-58.—*Operating expense ratios (as percent of total income) of underwriting activities of 37 corporate investment advisers, by size of open-end company assets managed, fiscal years ended 1960–61*

Operating expense items	Open-end company assets (in millions of dollars)						
	300 and under 600	150 and under 300	50 and under 150	10 and under 50	1 and under 10	0 and under 1	Total of 37 firms
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Total income from underwriting	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expenditures as percent of income:							
Salaries of officers and directors	12.6	6.7	31.2	15.9	13.5	45.9	11.2
Other salaries	13.0	19.2	8.5	12.3	16.5	17.9	16.0
Sales promotion	41.0	19.4	37.9	74.8	63.1	35.0	32.2
General administrative expenses	12.0	29.3	25.9	9.3	30.5	47.6	22.4
Total nonsalary expenses	53.0	48.7	63.8	84.1	93.5	82.6	54.6
Total operating expenses	78.6	74.7	103.4	112.3	123.5	146.4	81.8
Net income before taxes	21.4	25.3	(3.4)	(12.3)	(23.5)	(46.4)	18.2
Net income after taxes	(.6)	12.1	(7.6)	(12.7)	(25.2)	(55.4)	3.8
Expenditures as percent of total operating expenses:							
Salaries of officers and directors	16.0	9.0	30.1	14.1	10.9	31.3	13.8
Other salaries	16.5	25.8	8.2	11.0	13.4	12.3	19.6
Sales promotion	52.1	26.0	36.6	66.6	51.1	23.9	39.4
General administrative expenses	15.3	39.2	25.0	8.2	24.7	32.5	27.3
Total operating expenses	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of firms	4	4	2	8	9	10	--------

TABLE VIII-59.—*Number of investment adviser-underwriters experiencing operating losses on underwriting activities, by size of open-end companies managed, fiscal years ended 1960–61*

Open-end company assets (in millions)	Number of underwriters recording operating losses	Number of instances where underwriting loss is not offset by advisory income
0 and under $1	[1] 6	6
$1 and under $10	4	[2] 3
$10 and under $50	5	1
$50 and under $150	1	1
$300 and under $600	[1] 2	0
Total	18	11

[1] Including 1 underwriter reporting an operating ratio of 100 percent.
[2] Advisory income not available in remaining case.

The overall operating losses thus occurred mainly in the firms whose advisory and underwriting contracts were with the smaller sizes of investment companies, notably those whose assets were less than $10 million.[52] Table VIII-59 discloses that all underwriters in the smallest investment company size class which recorded losses failed to recoup these losses from advisory incomes. Each of these, in fact, also reported losses on their advisory activities. This, of course, confirms the locus of loss experiences noted earlier in the analysis of the 86 corporate investment advisers, and once more suggests the existence of a minimum profitable size of operation, after paying remunerations to officers and directors and other operating expenses. This again appears at a related asset size of approximately $10 million.

[52] The related asset size of the five firms reporting underwriting losses in the $10–50 million size class ranged from $17 million to $37 million, with a median of $25 million.

The summary data contained in table VIII-58 invite comparison with the similar expense ratios of the advisory activities of those advisers who manage investment company assets only. Such comparisons for total salary expenses (including directors', officers', and other salaries), total nonsalary expenses, and total operating expenses are presented in table VIII-60.

TABLE VIII-60.—*Comparison of expense ratios for underwriting and advising open-end investment companies, by size of open-end company assets managed, 1960-61*

Open-end company assets (in millions)	Total salary expense ratio		Total nonsalary expense ratio		Total operating expense ratio	
	Advisory	Underwriting	Advisory	Underwriting	Advisory	Underwriting
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
0 and under $1	73.8	63.8	78.0	82.6	151.5	146.4
$1 and under $10	69.5	30.0	66.0	93.5	135.5	123.5
$10 and under $50	42.3	28.2	39.2	84.1	81.5	112.3
$50 and under $150	44.8	39.7	23.5	63.8	68.3	103.4
$150 and under $300	34.7	25.9	24.3	48.7	59.0	74.7
$300 and under $600	25.7	25.6	11.0	53.0	36.7	78.6

The total salary cost of generating a dollar of underwriting income is consistently lower, by size classes of related investment company assets, than that of generating a dollar of advisory income. As indicated in table VIII-60 also, the total nonsalary expense is consistently higher for underwriting activities, thus causing sharply higher total operating ratios, except in the smallest two size classes. In these two classes, as noted previously, losses were reported in both the advisory and underwriting activities. The higher nonsalary expense ratios in the underwriting activities are in many cases due to heavy selling and sales promotion expenditures. Table VIII-58 indicates that such expenses amounted to 32.2 percent of total underwriting income for the 37 firms combined, and to 39.4 percent of total operating expenses.

A summary of the expense relationships in these 37 firms, as between their advisory and underwriting activities, respectively, is contained in table VIII-61.

TABLE VIII-61.—*Number of instances in which expense and income ratios in the underwriting function of 37 firms* [1] *exceeded the corresponding ratios in their advisory functions, 1960-61*

[Number of instances (and number of possible comparisons) in which specified ratio for underwriting exceeded same ratio for advising]

Ratio:	
Total salaries	9 out of 24.
Total nonsalary expenses	25 out of 31.
Total operating expenses	21 out of 33.
Net income before taxes	12 out of 31.

[1] In some cases, as indicated in the table, the degree of detail submitted by respondents did not permit comparisons of all ratios.

In a majority of the instances referred to in the table nonsalary expenses and total operating expenses were higher in the underwriting than in the advisory function, and only in a minority of instances did the same relationship hold in respect of the salary expenses. Net income before taxes was accordingly higher for the underwriting