

Preface

The level of retail mutual fund fees has been a contentious issue among mutual fund investors, investment advisers, regulators, and members of Congress since the 1960s. There have been approximately three distinct waves of lawsuits against mutual fund investment advisers for overcharging mutual fund investors, the first in the late 1950s, the second in the late 1970s and early 1980s, and the third group of cases starting around 2004. During this last wave of lawsuits, counsel for various mutual funds invited us to examine price determination in the mutual fund industry. This book grew out of these initial research efforts.

U.S. courts have typically not sought to resolve claims of excessive fees by investigating the nature and extent of price competition between investment advisers. Instead, the courts have focused primarily on whether fees were disproportionately high relative to the costs of operating mutual funds. In addition, in the 1960s the Securities and Exchange Commission concluded that mutual fund fees were not set by price competition. The courts adopted this “no competition” position in the early 1980s. The courts’ disinterest in examining price competition in the industry and their almost exclusive focus on a cost-based model of price determination provided motivation for this book.

Although there have been numerous government and academic studies on mutual fund fees, an economic model of demand and supply in the mutual fund industry has been largely missing in the controversy over fees, as well as a more economics-based study of the relevant empirical evidence. This book presents an economic model and analysis of advisory firm pricing.

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