

The Commonwealth of Massachusetts

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EXECUTIVE DEPARTMENT,  
STATE HOUSE, BOSTON, July 17, 1968.

*To the Honorable Senate and House of Representatives:*

I am returning, herewith, without my approval, Senate Bill No. 936 entitled "An act authorizing insurance companies to issue contracts insuring owners of shares in mutual funds against any loss resulting from the diminution in value of any such shares held for a minimum period of ten years from the date of policy."

This legislation would authorize the formation of an insurance company with only \$250,000 capital and \$250,000 paid in surplus, which would purport to guarantee investors in mutual funds against loss. The premiums would be paid into a capital reserve account from which claims would be payable.

Mutual funds seek to minimize the risk to investors by providing professional management and by diversifying investments over a broad range of stocks and bonds. The small investor thus achieves some measure of stability and protection against the fluctuations of individual stocks and bonds. While these funds have served a valuable purpose in expanding the securities market, they do not purport to guarantee the investor against loss.

The premise of ordinary insurance — fire insurance for example — is the unlikelihood that fires will at the same moment damage or destroy a significant portion of properties in diversified locations. General stock market fluctuations on a significant scale, however, are not at all unlikely. In the face of such a decline, however, insurance against loss could only be guaranteed if the investments insured constituted an uneconomically small multiple of the amount in reserve. Indeed, if the reserve were invested in securities, it would most likely decline substantially at the very time claims would be greatest.

I am aware of no great public demand for legislation of this type. Thus I find little to offset my grave fear that this sort of enterprise could lead many small investors in mutual funds into a false sense of security against the risk of market fluctuations. If the type of insurance this legislation contemplates, is, in fact; financially unsound, it is the small investor whose life savings would most likely be jeopardized.

For the above reasons, I cannot approve the measure and I return the bill without my approval.

Respectfully submitted,

JOHN A. VOLPE,

*Governor, Commonwealth of Massachusetts.*