In 1940 few Americans had heard of mutual funds. Today U.S. mutual funds are the largest financial industry in the world, with over 88 million shareholders and over $11 trillion in assets. The Rise of Mutual Funds describes the developments that have produced mutual funds long history of success. Among these developments are:

* formation of the first mutual funds in the roaring 20s

* how the 1929 stock market crash, a disaster for most financial institutions, spurred the growth of mutual funds

* establishment in 1934, over FDRs objection, of the United States Securities and Exchange Commission, the federal agency that regulates mutual funds

* enactment of the Revenue Act of 1936, the tax law that saved mutual funds from extinction

* passage of the Investment Company Act of 1940, the constitution of the mutual fund industry

* the creation in 1972 of money market funds, which totally changed the mutual fund industry and the entire U.S. financial system

* enactment of the Employee Retirement Income Security Act of 1974, which created Individual Retirement Accounts

* the accidental development of 401(k) plans, which have revolutionized the way Americans save for retirement

* the 2003 trading abuses, the greatest scandal ever in the history of the mutual fund industry
Many events have never been discussed in detail; others have been discussed in works on other subjects. This is the first book that pulls together the many strands of mutual funds unique history, written by an expert who draws on forty years of personal experience in the fund industry.

My Personal Review:
Regular readers of the business press know that mutual fund companies don't attract the breathless media coverage typically devoted to the intrepid, visionary geniuses who launch hedge funds and private equity firms. After all, everyone knows mutual funds are boring, right? They can’t short stocks, can’t use leverage, are heavily regulated and have to disclose all their best ideas. Why talk about common Chevrolets when you can write about mysterious Lamborghinis? To these folks, a book about the rise of mutual funds is about as enticing as one about the rise of vanilla ice cream. It won’t be the first time these folks have been dead wrong.

Matt Fink's book is not so much about the investment side of the fund business. That subject presumably would have been a stretch for someone whose career was spent inside the beltway. Instead, Fink provides us with a guided tour of nearly 70 years worth of public policy developments that allowed the investment side of the fund business to expand and prosper, ultimately reaching nearly two-thirds of all middle-income American households. Remarkably, Fink was a major participant in many of these developments through his work at the Washington trade group that represents mutual funds, the Investment Company Institute. Fink does not press the point, but one of this book’s many quiet virtues is to demonstrate that strict government regulation that is intelligently conceived, executed and overseen can help rather than hurt financial businesses, and enhance rather than constrain the interests of individual investors.

Fink does not shrink from the fact that his job was to advance the interests of mutual fund companies. Refreshingly, he also refrains from pious assertions that his industry’s success in Washington was attributable to leaders who were more noble or public-spirited than others in the private sector (although some clearly were). Instead, an industry on the brink of extinction in the 1930s realized that strong and effective regulation provided an opportunity to begin remedying and rebuilding relationships with investors, many of whom had been betrayed or, at a minimum, badly served, by fund organizations in the euphoria of the late 1920s.

Fink describes how the ethos that brought industry leaders together in support of comprehensive legislation in 1940 persisted over the decades and generally served fund companies, and fund investors, surprisingly well. If they didn't get it in the industry’s early years, most fund leaders understand now that the success of the mutual fund business model depends entirely on individuals who are committed to long-term investing. Fink explains that this structural fact is profoundly important: that it is what aligns the interests of fund investors with those of the advisers who
manage their investments, and what distinguishes mutual funds from so many other financial services and products.

Mark Twain said that "prosperity is the best protector of principle." Fink recounts that the first major fund industry scandal since the New Deal followed the bursting of the tech bubble in early 2000 and the three-year bear market that followed. To his credit, however, Fink does not suggest tough market conditions or other external factors caused the abuses, and he is unsparing with respect to the industry executives directly involved. Fink's shock and disappointment is evident as he describes how the unfolding series of abuses in 2003 and 2004. In light of our current difficulties, it seems especially notable that shareholders in the funds affected by the scandal recovered 100% of their losses (which proportionally, were rather small) and that numerous executives were fired and held personally liable. Moreover, the scandal accelerated a flight to quality that has seen most of the industry's most acclaimed, shareholder-friendly firms attract new investors and significantly expanded shares of the market.

Mutual funds are obviously not immune to the economic difficulties we read about and feel every day. Like many others, my family's retirement and college savings accounts have gotten clobbered. But Fink's book is a reminder that mutual funds are resilient and -- unlike the unfathomably complex products devised by the geniuses on Wall Street (at least those who are not now known as former geniuses) -- have a proven record of surviving and even flourishing through all sorts of national crises and market declines. We are keeping our faith, and our money, in mutual funds. And if you want to know why, Matt Fink's book supplies a big part of the answer.

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The Rise of Mutual Funds: An Insiders View by Matthew P Fink - 5 Star Customer Reviews and Lowest Price!