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- brokers for all leading mutual funds -

SECURITIES & EXCHANGE COMMISSION
OFFICE OF INVESTOR
EDUCATION & ASSISTANCE

1500 Massachusetts Avenue, N. W.
Washington, D. C. 20005

Office: 293-1900

February 13, 2004

Public Comments Unit
Securities and Exchange Commission
Washington, DC

57-09-04

Dear Sir:

I understand that public and industry comments are now being solicited on the issue of the Commission's changing 12-B-1 rules as applicable to mutual funds and broker-dealers.

It is vital to recognize that two types or levels of 12-B-1 fees can be payable to firms that sell mutual funds to the investing public. The original fee allowed by the SEC in the early 1980's was 25 basis points or a quarter percent of the value of each investor's mutual fund account, paid to broker-dealers on a quarterly basis. The purpose of this small fee was to compensate broker-dealers for the service provided to investors holding accounts that they were often not adding additional monies to and thus not generating ongoing commissions to the originating broker-dealer. This service might involve providing information to investors concerning the status of their account, contacting the fund to obtain a duplicate statement of the account, a 1099 form, changing the investor's address, or providing advice on changing registrations or exchanging shares to another fund that might be more suitable but which did not result in payment of a commission. A secondary objective was to discourage "churning" of dormant accounts to stimulate commissions by reinvesting the redemption proceeds in another "load" fund. It should be remembered that the early 1980's were a period somewhat similar to the 2001, 2002, and 2003 market climate when it was difficult to sell mutual funds because of the collapse of the "internet bubble". Thus the 12-B-1 fee, though small, was an effort to discourage broker-dealers from urging investors to sell their shares and reinvest elsewhere, an important market-stability tool that worked well.

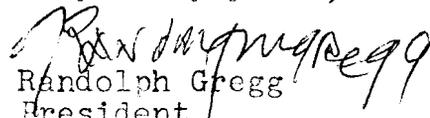
Much of the criticism of 12-B-1 fees is of a different kind and amount of 12-B-1 fee that is sometimes paid to brokers in return for their selling a particular fund family. These fees are much greater than 25 basis points and come from the investor's share capital even though they do not benefit the shareholder. This is deservedly improper or at least a conflict of interest between the shareholder and the fund or broker-dealer. However, the original 25-basis point service fee serves a useful purpose in compensating brokerage firms for after-market service and has served to stabilize the market in times of weak or lackluster markets. It in no way encourages brokers to sell any particular fund over another and is not a conflict-of-interest issue since virtually all "load" funds pay broker-dealers the same 25-basis-point fee regardless of whether new sales are generated or not. You would be doing shareholders and the broker-dealer community a great disservice by proposing the elimination of this small one-quarter percent fee.

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The small checks our firm receives for .25% 12-B-1 fees are welcomed, but they are not shared with representatives. Consequently, no sales agents have any incentive to recommend any particular fund on the basis of this fee, and in fact might even be unaware that such a fee is payable to the company.

For many small NASD firms, such as ours, the cumulative 12-B-1 fees are a significant source of revenue and could conceivably throw our company into a loss posture were they to be eliminated during periods when the market is under pressure and new sales of mutual funds are difficult to effect.

Very truly yours,


Randolph Gregg
President