

**CARMICHAEL ASSOCIATES
MEMO**



Date: May 17, 2004
To: Jonathan G. Katz
Subject: 12b-1 Fee Legislation
From: Stan T. Carmichael *SP*

57-09-04

I am a licensed insurance professional and mutual funds salesperson. While I commend the efforts by the SEC and the Congress to eliminate illegal and inappropriate practices in the mutual fund industry, I am concerned that legitimate, appropriate compensation paid to registered representatives for providing valuable services to their clients will get swept up in the rush to "reign in" the mutual fund industry. I am therefore writing to strongly urge the SEC to reject any proposal that would eliminate the ability to pay 12b-1 fees to registered representatives for providing ongoing service to their mutual fund-owning clients.

In return for providing ongoing service and continuing advice to my clients regarding their investments, I receive trailing compensation much in the same way that insurance agents receive renewal commissions on the life insurance policies they sell. This trailing compensation is typically paid under a written plan adopted pursuant to SEC Rule 12b-1.

The amount of this compensation is relatively modest; on a \$10,000 investment in a mutual fund's "A" shares, the annual "12b-1 fee" this is paid for providing ongoing service equals about \$25, and this amount is shared by the broker-dealer and the rep. The payment of these fees provides substantial value to investors - - in exchange for a small annual payment, they have access to a financial services expert to answer their questions and address their concerns. In contrast, people who invest in mutual funds which are purchased directly from the mutual fund company typically must call an "800" number and speak with a different customer

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service representative, who is not personally known to the client, whenever they have questions regarding their investment.

I believe the elimination of 12b-1 fees would do considerable harm to those investors who need and want ongoing investment planning advice and counsel. A significant majority of my clients expect our office to be available and to respond quickly to a variety of questions regarding their investments. I have never received complaints from my clients about the small amounts they are charged for the assistance I provide in helping them address their various investment and planning questions. My clients expect me to be compensated for helping them achieve their long-term financial goals. For the above reasons, I urge the SEC to reject any proposal to eliminate or restrict the ability of mutual funds to pay 12b-1 fees to registered representatives for providing continued service to their clients. Thank you for your consideration of my views on this subject.

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