W O O D A R D

Don Woodard, CLU
Blake Woodard, CLU

November 5, 2010

Via E-mail to rule-comments@sec.gov

Honorable Mary L. Schapiro
Securities & Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Number S7-15-10 (Proposed Rule for 12b-1 fees)

Dear Chairman Schapiro:

Last December my wife and I had to put down our 17-year-old miniature poodle, Benny. Benny was blind and deaf and could barely walk. It was his time. A few months later, we adopted a new dog from Fort Worth's animal shelter. Teddy is a 23-pound compact white schnoodle, a schnauzer-poodle mix. Teddy is a funny little dog with one ear that flops over. He loves to chase squirrels but never catches them. Frequently he will run to a tree, put his short front legs as high up on its trunk as he can stretch them, and bark at the tree. Unfortunately, the tree is uninhabited. Teddy is barking up the wrong tree. The squirrels chatter at Teddy, taunting him from the next tree over.

Respectfully, Madam Chairman, with its Proposed Rule to replace 12b-1 fees with 12b-2 fees, the Commission is barking up the wrong tree.

I understand the line of thought that says that 12b-1 fees are being used for purposes beyond their original intent. But given that the Commission is proposing a replacement of 12b-1with 12b-2, it amazes me that the Proposed Rule encourages front-end sales loads over ongoing service fees. The repeal of 12b-1 is the ideal time to abandon the broken no-service, consumer-hostile, front-end sales load model pushed by most broker-dealers and representatives. It is not C-shares that should be restricted but A-shares.

In my 15 years as a registered representative, I have observed that the rare commission-based financial professionals who use C-shares are the ones who provide the best service to their clients. No surprise there. Financial advisors who use C-shares must earn their pay every quarter through intensive customer service. When I inherit an account from a dissatisfied consumer, her account always is in A-shares. The advisor sold the funds, pocketed his commission, and left the scene. Advisors for a well-known radio-personality based broker-dealer have told me their model is to sell A-shares and only provide support when clients call in for service. If a client doesn't call in, the advisor never reaches out to them.

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Perhaps my observations explain why only about seven percent of American Funds' sales are C-shares. It is the rare representative who puts her clients' interest first and risks 80% of his total compensation by using a fund share class that only pays her for providing ongoing services. If your advisor sold you C-shares and does not perform, you can move your account to any other representative who will happily serve you. If your advisor sold you A-shares, you are out of luck.

The disparity in consumer-friendliness between A-shares and C-shares is so broad that it surprises me that we are having this discussion. The agency of the United States Government charged with protecting the investing public is promoting a compensation model that encourages upfront compensation and bans meaningful continuing compensation for serving the public. The Proposed Rule's continuation of the NASD's old 25bp service fee does not approach the level of compensation necessary to satisfactorily serve the investing public, particularly smaller accounts.

The current American Funds model, which pays a 1.0% 12b-1 fee and converts C-shares to A-shares after 10 years, is a reasonable compromise for providing the high level of service that investors demand without over-charging investors who hold onto their funds for a long period of time. However, even the American Funds model leaves shareholders vulnerable after the 10th year, when the service fee drops from 1.0% to 0.25%.

Prior to the 2008 12b-1 Roundtable, I wrote a letter that I am told was widely distributed among Chairman Cox's staff. It is known as the basketball letter, and I am attaching it as part of my submission.

Here are my suggestions to improve the Proposed Rule, some of which answer your specific questions:

Limit on 12b-2 Marketing & Service Fee. The Proposed Rule limits the new Marketing & Service Fee to 0.25bp, largely because that is the limit established by the old NASD. If we are throwing out 12b-1, we also should throw out the old NASD-established service fee. The Marketing & Service Fee must be high enough to compensate investment professionals to provide ongoing service to their customers, or their customers will quickly become "orphan" customers, receiving no service at all. I recommend letting mutual funds set their own 12b-2 fees based on competition, as long as the 12b-2 fee plus the 6c-10 fee do not together exceed 1.0%, with full disclosure of the fees' impact on client statements.

Limit on Rule 6c-10 Ongoing Sales Charge. Limiting the 6c-10 Ongoing Sales Charge so that its cumulative fees do not exceed a fund's maximum front-end load sales charge penalizes the conscientious representative who does not want to charge his clients up-front for what is supposed to be years of service. If section 6c-10 were adopted as

proposed, no advisors would sell C-shares, because they would stand to gain nothing for their honest services but they would risk 80% or more of their compensation if the client fired them early in the relationship. As written, the proposed section 6c-10 will guarantee that the investing public loses the clear benefits of level ongoing service fees.

Grandfathering Period. As I have stated, you should not be eliminating or restricting C-shares, which are far better for consumers than front-loaded shares. However, if the Commission does eliminate or restrict C-shares, the grandfather period should not have an arbitrary termination date, such as five years. Rather, advisors who in good faith sold C-shares with a 10-year conversion prior to the effective date of the Proposed Rule should be allowed to serve clients under their good-faith arrangement with no preliminary alteration of the original agreement. For example, if a shareholder purchased American Funds C-shares in 2007, those C-shares will automatically convert to A-shares in 2017. The proposed rule should not interfere with that automatic conversion.

Madam Chairman, I believe the Proposed Rule is against the best interests of the investing public. It is not the Ongoing Service Fee Tree but rather the Upfront Sales Load Tree that deserves our bark.

Sincerely,

Blake Woodard

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W O O D A R D

Don Woodard, CLU
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May 19, 2008

Honorable Chris Cox
SEC Headquarters
100 F Street NE
Washington, DC 20549

Re: 12b-1 fees

Dear Mr. Chairman:

My six-year-old son played on a YMCA basketball team this winter. Basketball is my favorite children's team sport, partly for selfish reasons (never hot, cold, or windy), but also because only basketball provides the entertainment value of the closely confined chaos of 10 little people running into each other, none sure exactly what he is supposed to be doing. Occasionally, one of the boys or girls would run to the wrong end of the court and shoot at the wrong basket. Sometimes, the errant shot would go in the basket, causing the child the embarrassment of scoring against his own team.

Mr. Chairman, respectfully, with the discussion on 12b-1 fees, you are shooting at the wrong basket. Unfortunately, if your well-meaning shot scores, the damage inflicted on the securities consumer will be severe. Therefore, I would appreciate the opportunity to meet with you at your earliest convenience to discuss my concerns and am requesting an appointment with you.

I am one of those rare registered representatives who use C-shares in my practice, because they are in the best interest of the customer. I am angered whenever I meet with a client who has never heard from their previous investment representative since purchasing front-end-load A-shares from which the representative drained all the compensation. It is rare that I takeover an account where the former representative used the more consumer-friendly C-shares. That rarity no doubt stems in part from the infrequent use of C-shares (American Funds reports that only 7% of its funds are in C-shares) but also in part because representatives who use C-shares may provide better long-term service to their customers and are far less likely to be fired.

I am saddened at the news I see coming from the SEC about 12b-1 fees, because – again, respectfully – I believe the Commission has completely missed the mark on this discussion. It is not C-shares that should be eliminated or restricted but A-shares. A-shares foment a sales mentality among registered representatives,

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whereas C-shares foment a service mentality. The C-share model (levelized service-based compensation) is exactly what the Commission should be developing, and therefore I do not understand why the Commission is attacking C-shares and working against those of us who – like you – believe we are fighting for the consumer.

I do not understand why a registered rep who sells a client C-shares, which allows the client to move from fund family to fund family without forfeiting an upfront sales load, is attracting so much negative attention from the Commission, while a representative who moves his client from one fund family's A-shares to another family's A-shares, generating a double sales load, appears to be off the radar.

I do not understand why investment professionals who are paid levelized compensation through C-shares, and are therefore incented to provide excellent service to retain clients for many years, are considered "bad" while representatives who take all their compensation upfront are considered "good."

I do not understand why clients who pay an annualized 1.0% 12b-1 fee and maintain the flexibility to move their assets to another investment professional who will be paid for his or her ongoing services are thought to have been treated poorly, while clients who paid an up-front sales load and never hear from their registered representative again are thought to have been treated well.

Apparently, since only 7.0% of the largest mutual fund family's assets are in C-shares, I am a maverick. My views may not even reflect those of my broker-dealer. However, good government needs to hear from the mavericks. Therefore, Mr. Chairman, if you will give me 30 minutes of your time, I will fly to Washington at your convenience. Before you make that shot, I would like to show you the other basket. We are on the same team.

Sincerely,

Blake Woodard

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