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October 6, 2010

RECEIVED
OCT 18 2010
OFFICE OF THE SECRETARY

Ms. Elizabeth Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: S7-15-10

Dear Ms. Murphy:

I write to you on behalf of my constituent, Mr. Eric Gunness, who contacted me regarding the proposed rule to replace rule 12b-1 under the Investment Company Act.

For your review, I have enclosed a copy of the letter I received from Mr. Gunness. As you deliberate this issue, I would appreciate your consideration of, and your response to, his comments.

Thank you in advance for your attention to this matter, and I look forward to your response.

Sincerely,

Jack Reed

Jack Reed
United States Senator

Enclosure

Constituent

Gunness, Eric
2 Hope CT
Barrington, RI 02806
Bristol County

Email: lgunness@alum.mit.edu

Web Mail Message

Web Mail Subject: 12b-1 fee overhaul

Senator Reed,
While I can understand why there is interest in the 12b-1 fee overhaul, I am worried that regulatory fixes will have unintended consequences that hurt advisors and small investors. Certainly, there are inappropriate applications of 12b-1 fees. For example, if a client with $400,000 in an IRA is completely invested in C shares, they are being charged more than if they were in alternative share classes of the same funds.

There are times when C shares are more appropriate than A or B shares. For example if the client might have the need to change investment strategies during a 5 year window, C shares provide flexibility. And, boy, was it nice during this past three year period to have the flexibility to sell funds and move to something like CDs or Treasuries over the past two years (without a back end sales charge or without having paid a huge front end load).

Also, without C shares, it becomes very difficult to justify servicing smaller accounts. I think it is fair to charge medium to large accounts about .75 bps per year (gross), and charge accounts below $150,000 about 1.25% (expense ratio). How can an advisor justify working with a retiree's $125,000 account if he/she can't get paid a couple hundred dollars per quarter? I have some such accounts, and I believe the clients receive excellent service - they get their money's worth.

What would happen if all "mutual fund trails" are reduced to .25 bps is that smaller accounts would be dropped (or ignored), leaving the most vulnerable investors on their own during a very difficult investment environment. Alternatively, some brokers or advisors would try to take a high-volume approach (the wire houses already have call centers where they send small accounts). Small investors would get much less attention if they are one of one or two thousand accounts an advisor manages.

I often see articles in the press about how "load funds" eat into returns so just use index funds... but the fact is that many individuals do not want or have the interest or aptitude to manage their own accounts over the long run. Many if not most people want some sort of advice, and they'll have to pay for that advice. This makes for good press, but is not very helpful, in my view.

I am an advisor on "Main Street." I am in business of helping my clients. I think my clients appreciate, even rely on my advice and help. I've worked with many of them for many years. They need me now more than ever, given the recession and turmoil on Wall Street. I need to be paid in order to stay in business. I don't overcharge anyone, large or small accounts. I choose many clients based not just on account size. I am part of a tight community and I happily chose to work with some clients because: I like them, I know their family, I admire their work, etc. I need to have access to various investment tools in order to work out what is a fair price for the work.

Don't hurt the people you are supposed to help. The problems in our industry, as you know, lie at the top of the food chain, not at the bottom. Have some courage and focus your reform efforts there.

Thank you, and contact me if I can be of service to you or your loved ones.