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Securities and Exchange Commission
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Washington, D.C. 20549-0609

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OFFICE OF THE SECRETARY

April 26, 2004

Reference File Number S7-11-04,

Dear Sirs,

About The Mandatory 2% Redemption Fee for Mutual Funds

Putnam Mutual Funds would love to implement this new rule as soon as possible. For years, Putnam Mutual Funds have closed anyone's account who did a buy and sell within a week. **Except their own employees of course.** Putnam does not want to participate in true value pricing since it may slow the passage of the new 2 per cent fee rule.

Strong Investments would love to charge 2% to individual investors who intentionally or unintentionally buy and sell a fund within a five day period. **Richard Strong, the CEO, was the only one who was allowed to do it.**

Pilgrim-Baxter totally backs the 2% fee. **Pilgrim Baxter co-founder Harold Baxter shared fund holdings with a friend whose clients market timed PBHG funds.** Pilgrim Baxter does not want to mess around with true value pricing, they only want the 2 per cent mandatory fee quickly.

Federated Mutual funds back the new fee rule one hundred percent. Federated has long had the policy that international funds must be held for 15 days. **But Federated allowed Canary Capital Partners and Veras Investment Partners to market time millions**. Federated in not interested in true value pricing either. Their goal is the 2% fee.

Franklin Mutual Funds state that the new 2% Rule is absolutely necessary. Franklin for many years closed individual investors accounts if they did one trade within two weeks of purchase. **Except of course, their own officers and selected investors who invested millions in their hedge funds.**

Why do all these mutual funds want the 2% redemption fee? Crooks know a golden goose when they see it.

Janus Mutual Funds hired a group of third party independent investigators to calculate the damage to long term shareholders from abusive rapid arbitrage trading. They discovered that the cost was approximately one cent per share in those funds affected. Not one per cent, as I thought when I first read it, but one cent per share. For example, if the fund traded for $5 dollars per share, one cent would be equivalent to 0.2 per cent. If the fund traded for $30 dollars per share, one cent would be equivalent to 0.03 per cent. A two percent redemption fee would greatly exceed the cost to the fund.

J.T. Green, a Finance Professor from Georgia State University published a study of the cost to long term investors from abusive rapid trading within international mutual funds. The study was of a 20 per cent sample of the open end international mutual fund industry. During a 26 month period the cost to passive investors in international funds was $420 million dollars. If the trades in this study were assessed with a two percent redemption fee, the redemption fees would have been 16 times as much as the $420 million dollars, i.e. 6.9 billion dollars. (Greene, J.T., *"The Dilution Impact of Daily Fund Flows on Open-End Mutual Funds"*, Journal of Financial Economics, July 2002, Vol. 65, Issue one, pg. 147)

The proposed rule, under Discussion "II A" asked for data on the magnitude of costs "that funds bear as a result of the active trading by a small percentage of shareholders." For international funds, here was the answer. Since the Greene et al. study represented 20 percent of international funds the total cost for all international funds over 26 months would be five times $420 million dollars, or $2.1 billion dollars. A twelve month cost would be about $920 million. The Greene study showed that for open end domestic stock and bond funds the average cost from active trading by abusive rapid trading shareholders was essentially zero. In 2004, the Securties Law Daily published by the Bureau of National Affairs has estimated that 98% of mutual fund market timing has stopped. So that leaves the cost that funds bear as a result of the active trading at approximately $18,400,000 per year.

Why does the mutual fund industry want a 2 percent mandatory redemption fee?

It's a Golden Goose.

Sincerely,

Thomas Foster, MBA