



PALADIN INVESTMENT LLC

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PALADIN INVESTMENT LLC, IS A
FEDERALLY REGISTERED INVESTMENT
ADVISOR.

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July 8, 2009

Ms. Elizabeth M. Murphy
Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Proposed Amendments to Rule 206(4)-2
Release No. IA-2876
File No. S7-09-09

Dear Ms. Murphy:

Paladin Investment appreciates the opportunity to express its views in response to the Securities and Exchange Commission's (the "Commission") request for comments on the proposed amendments to Rule 206(4)-2.

As an investment adviser registered with the SEC, under Rule 206(4)-2, we are deemed to have custody solely because we have the authority to deduct advisory fees from our clients' accounts, all of which are maintained by an independent, qualified custodian, Charles Schwab, Inc. We strongly believe that the portion of the proposed Rule, which would require advisers with this form of custody to undergo an annual surprise audit, is not warranted.

As required by current Rule 206(4)-2, the independent qualified custodian maintaining our clients' accounts delivers account statements, on at least a quarterly basis (monthly), directly to clients, identifying the amount of funds and securities at the end of the period as well as all activity in our clients' accounts. As a result, our clients receive comprehensive account information directly from the qualified custodian and are thus able to monitor the activity in their accounts. Most monitor their accounts online and are acutely aware when we deduct fees. Also our quarterly reports contain a fee statement and no fees are withdrawn until clients have had the opportunity to review their report

and bill. Furthermore, our clients agree, in writing, that our advisory fees will be deducted directly from their advisory accounts.

Accordingly, the safekeeping measures currently required by Rule 206(4)-2 provide our clients with the ability to sufficiently identify and detect erroneous or fraudulent transactions. It is also our understanding that abuses in the industry have not generally resulted solely because of arrangements whereby advisers have the authority to deduct fees from accounts maintained at qualified independent custodians. The absence of such actions supports our position that the safeguards mandated by current Rule 206(4)-2 are sufficient to deter advisers from engaging in fraudulent conduct.

Furthermore, the cost associated with an annual surprise audit would cause a financial strain on our small company (about 60 clients), the cost of which would most likely be passed on to our clients in the form of higher advisory fees, which is not in the best interests of our clients.

In addition, as we imagine would be the case with other advisers, in the event we were unable to absorb and/or pass on the costs associated with an annual surprise audit, we would be forced to eliminate the direct debit of fees and instead require clients to pay our advisory fees directly. This would require a complete revamping of operations and would increase overhead costs. More importantly, in many cases, such a change in billing practices would confuse clients and require them to reorganize their banking arrangements, thereby adversely affecting our clients.

Given that existing safeguards in place are adequate and considering the adverse effects of a mandatory surprise audit on advisers as well as clients, we respectfully request that the Commission leave current Rule 206(4)-2 intact and unchanged with respect to advisers who have custody solely because they have the authority to deduct advisory fees from client accounts. We thank the Commission for the opportunity to comment on this matter.

Respectfully,

A handwritten signature in black ink that reads "Robert P. Porter". The signature is written in a cursive, flowing style.

Robert P. Porter
Paladin Investment LLC