KALOS MANAGEMENT

Investment Advisory Services offered through Kalos Management, Inc., an SEC Registered Investment Adviser.

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July 9, 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:

Kalos Management, Inc. appreciates the opportunity to express its VERY STRONGLY held views regarding 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, unfortunately, we are considered to have custody solely because we have the authority to deduct advisory fees from our clients' accounts. All of these accounts are maintained by an independent, nationally recognized, qualified custodian. 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. More specifically, we believe the proposed change is an incredibly inane overreaction, and is another example of regulation that does nothing to help end clients, and seemingly only serves the interests of regulators trying to appear proactive.

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, 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 able to monitor the activity in their accounts. 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 significant financial strain on our company at a time when we are less well positioned to absorb additional costs. Unfortunately, much or all of this increased cost would likely be passed on to our clients over time. The other, nearly unthinkable, alternative is eliminating the direct debit of fees and instead requiring clients to pay our advisory fees directly. This would require a complete recreation of operations and would substantially increase overhead costs. However, because the surprise audit cost would likely be so high, we would consider this option. And, unfortunately, such a change in billing practices would confuse some 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.

It is our strong opinion that this proposal is poorly considered and provides little, if any, benefit to clients or advisors while substantially increasing costs and regulatory burden. We thank the Commission for the opportunity to comment on this matter.

Respectfully,

Daniel Wildermuth
CEO
Kalos Management, Inc.