



Elizabeth M. Murphy, Secretary  
U.S. Securities & Exchange Commission  
100 F Street NE  
Washington DC 20549  
Via Electronic Attachment

RE: File No. S7-09-09, Proposed rule on Custody of Funds or Securities of Clients by Investment Advisers

July 2009

To The Commission:

Thank you for requesting comments on the proposed changes to Rule 206(4)-2.

Based on these proposed changes our firm would be considered to have custody of client's funds solely as a result of our authority to withdraw advisory fees from their accounts. The proposed rule raises concerns, specifically the requirements that RIAs who have custody of client funds or securities undergo an annual surprise examination by an independent public accountant. It is because of our firm's classification that we strongly oppose this onerous proposal.

Spectrum has been a registered investment advisor for well over twenty years (is a member of NAAIM) and currently has several hundred million dollars of clients' assets under management. Our firm is part of the backbone of American economic society as we act as a small business employing twelve individuals. The vision of our firm and foundation of our investment philosophy is to protect our clients' capital and through steady plodding take advantage of various market opportunities to prudently find suitable growth prospects. A great amount of time and effort has been spent on the due diligence required in selecting third party custodians used as part of our tactical programs. All Spectrums' managed assets are held at these custodians, which report at least quarterly directly to clients. Spectrum's custodians have sophisticated technology through online access and most assets can be verified daily.

Spectrum is currently required to undergo an annual audit by a reputable outside accounting firm due to our ability, as clearly stated in our forms ADV and Client Disclosure Documents, to deduct fees annually based on the anniversary of the account opening. This audit costs \$20,000 nearly 60% of our annual Compliance Department budget. Due to the proposed change to custody rules we reached out to our accountant and received an estimate for annual surprise audits to verify custody and were given an estimate of approximately \$12,000, well in excess of the cost benefit analysis published as part of the proposed rule amendments of \$8100.

Spectrum's compliance budget would experience a 36% increase. This would be an onerous cost to our advisory firm simply because we have discretionary authority and the ability to deduct

management fees from client accounts. It also maybe a duplication of cost and effort since assets are held at 3<sup>rd</sup> party custodians.

Our firm believes our business model is unlikely to be subject to the abuses that lead the commission to the proposal, due to the use of quality custodians and the current audit requirements. Our compliance program is dynamic and proactive. Forensic testing is completed and documented to ensure the safety of our clients' assets at the country's leading custodians. Spectrum would have no objection to submitting a certification to the Commission on a periodic basis stating that Spectrum managed client assets are properly protected and accounted for on behalf of clients. This certification could be part of the annual compliance reporting currently required.

In summary, Spectrum opposes this proposal for some basic reasons, a) inclusion of RIA firms deemed to have custody due to the deduction of management fees, b) cost burden and c) duplication of adequate regulation and rules currently in place. This proposed regulation will burden and hinder the many outstanding financial professionals and their business based on the abhorrent behavior of the few.

Respectfully submitted,

A handwritten signature in black ink that reads "Mary K. Collins". The signature is written in a cursive, flowing style.

Mary K. Collins  
President

cc: Neal Smith, Compliance Specialist