

I am a financial advisor who serves middle income Americans. I have done this for 15 years, and in doing so I provide seven day a week service to my clients, and encourage them to contact me morning, afternoon or evening, whenever they have a financial question or seek help. I work to stay in touch with my clients by e-newsletter, email replies, phone calls and scheduled financial reviews around 20 times per year.

About ten years ago I fully committed to a service model for my clients. In doing so, I diligently counsel them on a variety of financial matters dealing with retirement planning, educational savings and emergency account funding.

I aligned my compensation to be fully in line with the counselor approach to financial advising. In doing so, I have used C share mutual funds, 1% wrap fees on advisory based mutual funds and separately managed accounts and level compensation payout on variable annuities.

I am writing to illustrate how utterly devastating your 12-b2 rule will be to a financial advisor like me who provides best-in-class service to clients. Your proposal will cut a broad swath of destruction throughout the country.

In my illustration, a representative like me could have gone down two exclusively different paths over the past decade. Rep MF might have exclusively used C share mutual funds for all business. Rep WF could have exclusively used advisory based accounts with a 1% wrap fee for all business.

Of course in practice, I used a combination, based on the needs and interests of clients. But this illustration will show how foolish the 12-b2 proposal is, and the degree of destruction it will wreak over time.

Rep WF has an annual trail income of 140,000, based on his assets under management and 1% wrap fee. He is highly regarded in InvestmentNews as one of those reps with more than 100,000 in gross dealer concession, ie, compensation production.

Rep MF, too, currently has an annual trail income of 140,000, based on the same amount of assets under management and a 1% total trail fee from his C share mutual funds.

Here is where 12-b2 gets dicey. You will be putting Rep MF out of business over the next few years.

In time, his C share trail income will be reduced by 75%, to \$35,000. He will still have operating expenses to run his practice. They are:

- \$7,200 for annual office rent
- \$5,100 for securities license fees and E&O insurance
- \$3,000 for Verizon networking of his Blackberry, cell phone and netbook computer for on-the-road work to ensure complete client service throughout the year wherever he is at the moment.
- \$500, minimum for equipment replacement and upgrades
- \$1,000 for costs to meet compliance requirements for his independent broker-dealer

- \$1,200 for Albridge data aggregation software to provide state-of-the-art financial performance information to clients when conducting financial reviews
- \$600 for e-newsletter service delivered monthly to all clients
- \$3,000 for a wide variety of office supplies
- \$400 for postage costs

Whew. I could add a few more, but by now you get the idea! The total annual operating expenses I have just listed amount to \$22,000.

Now let's net that against the Rep MF's gross trail income from C share business and it is only \$13,000.

Of course, before Rep MF could have gotten this far along over the next few years, his broker-dealer would have reduced his payout from a top level to the bottom level at this firm, cutting that \$35,000 number to about \$19,500.

And before Rep MF even had the opportunity to consider running his business at a loss, ie, \$19,500 less \$22,000 in annual expenses, his broker-dealer would have terminated him for low production.

And the funny thing, the service and investment performance, which I know for a fact by looking at long-term rates of return are just about identical for Rep MF's clients and Rep WF's clients, except that there is a program fee of about 25 basis points for Rep WF's clients, so their return is about 1/4 of 1% less per year, but at least they get to keep their financial advisor, whereas you have utterly destroyed the heretofore practice of Rep MF.

At least these clients will get to see Rep MF. He will be the one taking their order at McDonald's every day.

You need to hear and understand that the ideology of 12-b2, and probably the pressures of special interest groups pushing to eliminate the C share concept as we've known it, will severely harm Americans, decrease competition, focus financial planners to only serve the very wealthy in America and put me, an otherwise exemplary financial advisory out of business.

Sincerely,

Larry Peterson
Investors Capital Corporation