

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

RE: FILE No. S7-15-10 Mutual Fund Distribution Fees

November 5, 2010

Dear Ms. Murphy,

The SEC's current proposal will affect over 1,000 funds and five different share classes. My comment will focus on the proposal's affect on C shares. While it is easy to acknowledge that 12b1 fees are not currently being used as originally anticipated in the enacting legislation, the C shares are being used by firms such as Allegheny in a manner that is most beneficial to investors.

First we must define "value." Some equate lowest cost to highest value. This simply is not true. Please remember that things in addition to absolute dollars in an account should figure into the definition of value.

At Allegheny we pride ourselves on providing excellent value to our clients. We informally refer to C shares as "advisor shares", indicating that our advisors<sup>1</sup> use these shares as a method of receiving compensation for the advisory services that they provide, and receive this compensation in a manner most cost effective to the client.<sup>2</sup> We commit to report upon and monitor investments, and to provide advice to our clients on college planning, retirement planning, estate planning, cash management, and insurance issues. We assist individuals in negotiating mortgages and credit lines, and help businesses establish 401ks, deferred compensation and succession plans. Using the C share allows us to provide like services to small accounts without requiring them to separately pay advisory fees. Receiving payment in this manner aligns our interests with those of our clients, and results in a mutually beneficial arrangement.<sup>3</sup> Firms such as Allegheny concentrate on maximizing the "total value" of the account, which is a combination of the dollar account value and the services received. Advisors, as all other professionals, deserve to be paid for their work. Our compensation structure ensures that our clients pay a fair price for value received.

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<sup>1</sup> In this letter I use "advisor" to denote a licensed "investment advisor representative".

<sup>2</sup> There have already been innumerable comments on this particular topic; I will refrain from adding to the obvious and rely on the other commenters.

<sup>3</sup> I reject the "scare tactics" used by some in the industry who argue that "fiduciary duty" means that advisors will be expected to work for free. Allegheny has, and will continue, to interpret "fiduciary duty" as meaning that we do our best for our clients, treat them fairly, disclose any conflicts, and deliver good value in return for the fair and reasonable compensation that we receive. In my opinion it could not reasonably be construed that the "best interests" of the client require that the advisor provide services for free. No other profession does this, and the "free" services would only be offered for an extremely finite period of time. Clearly, this would not benefit the client.

Since I am more of a writer than a mathematician, when I began composing this letter I sought the advice of those more adept than I am with analytics. Broker Village worked with FINRA to develop the Mutual Fund Expense Analyzer (which is on the FINRA website, with a link from the SEC website). I contacted them to ascertain whether they could shed any light on the extremely difficult question of choice of share class. Their mathematical results surprised me, and caused me to seriously question the assumptions that we had been working under for so long.<sup>4</sup> Even in raw dollars, lower expenses do not always equate to higher investor value. When an advisor agrees to use a C share as opposed to an A or B share, the advisor defers immediate payment. This pricing arrangement allows all contributed dollars to be invested on the client's behalf, unlike an A share, where a load of up to 5.75% is immediately deducted before the balance is invested.

In addition to the letter attached as Exhibit A, Broker Village provided us with some additional data on the value and expenses of a mutual fund at various breakpoints and in bull, bear, and "level" markets. For purposes of discussion, I am using an investment value of \$75,000, which roughly approximates the average family investment in mutual funds. The data provided by Broker Village is attached as Exhibit B.

While exhibits and calculators often choose to use ten years as the holding period for mutual funds, the Investment Company Institute's most recent redemption statistic implies that the average holding time that an investor holds a mutual fund is 3.8 years; a little higher for load funds and a bit lower for no-load funds. For a \$75,000 equity fund trade, for a 3, 4, or 5 year horizon—which covers most investors-- in Bull, Bear, and level markets, C shares almost ALWAYS have the HIGHEST account value. This is true for virtually all loaded equity fund trades from major firms. In short, when the "average" investor purchases C shares from Allegheny for the "average" period of time, not only do they purchase investments that have the highest account dollar value, but they also receive a host of other services that provide even more value to them.<sup>5</sup> If a fund continues to perform according to expectations, an adviser may choose to hold the fund longer. The SEC's proposed flip, at an indeterminate time, could discourage holding the C share, which could work to the disadvantage of the investor and the fund. In truth, the research provided by Broker Village clearly proves that both B and C shares are better for investors than conventional wisdom would imply.

In the past several years we have heard serious concerns about the viability of the Social Security system as the "baby boomer" generation begins to retire. Statistics indicate that the majority of US citizens are not financially prepared for retirement. One of the predicates of financial planning is to analyze and plan for the future. A recent Schwab study revealed that 70% of participants who received financial advice doubled their savings rates from an average of 5% to 10% of their pre-tax income. The same study also indicated that 401K participants' returns were 3.3 percentage points higher on average if some level of financial advice was provided.

Based upon this information it seems only logical that regulators should encourage services that increase client account value and encourage investors to save. It only makes sense to encourage the use of C shares coupled with advisory services to permit the financial professional to provide continued support to the investor. Avoiding or delaying the flip would provide this encouragement to the industry. This gives advisor the resources to not only maximize the investors' return, but also educate the client and encourage the client to plan responsibly for the future.

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<sup>4</sup> I have attached a copy of the letter they sent me as Exhibit A. Please note that neither I nor Allegheny is affiliated with Broker Village.

<sup>5</sup> See Exhibit B for detailed numbers.

Industry literature states that the average American family's mutual fund accounts' value is \$80,000. The 25 bps fee would result in a \$200 "service charge", which would be allocated between the broker dealer and the agent. For this amount the broker dealer is expected to deliver 12 monthly statements, tax forms, a privacy notice, keep addresses and suitability information current, confirm changes with the client in writing, and update the client information at least every 3 years. The BD or RR responds to client inquiries, arranges for checks and distributions, maintains cost basis information and provides advice. Out of the remaining amount the BD and or RR are required to compensate staff, maintain offices, pay overhead (including licensing and audits) and meet never ending compliance requirements. For the average account the amount left is minimal and clearly insufficient to do all the regulations require. Effecting a substantial change in C shares will not help but will punish the investors, and cause them to either overpay for advisory services, or not receive the services at all. The smaller investors, who most need the services, will not be able to afford them. Maintaining C shares without a flip will permit advisors to continue to provide these services to small investors.

The C share cost coupled with the account dollar value and the services provided is not excessive. Contrast this amount with the fees charged by other service professionals in fields such as law and medicine. Financial planning is a bargain.

As a lawyer I understand the necessity of renaming the plan and abolishing 12b1s because they are no longer used for the purpose intended. However, one can duplicate the current structure with 12b2s. We can maintain the same structure but more accurately describe the purpose of the fees and costs. Instead of revamping the entire structure, at enormous cost, consider simply mandating better disclosure. Revise the mutual fund prospectus delivery requirements, and provide investors with a summary prospectus, including share class fees and their effect on account values, prior to the purchase.

I reviewed Broker Village's letter and tried to make sense of when to use which share class. Then I realized that the key factor to consider was not the expense ratio (of which 12b1s are but a part), but the overall pricing profile of the fund. That includes the expense ratio, breakpoint schedule, CDSC schedule, and conversion period. The SEC proposal does not address this issue, nor does it address the enormous costs in "soft dollars", "directed brokerage", "shelf space", "revenue sharing", wrap fees, sales charges, CDSCs and investor-level taxes on income, redemptions, and gains. While the 12b1 fees bear some rational relationship to client service, in that they are paid to firms actually making the sales, some of these other fees are totally discretionary with the funds or distributors and often have more of an impact on expenses than 12b-1s. While various share class costs are disclosed in the prospectus, the most sophisticated investors are unable to analyze these other costs. Even simply putting forth this proposal for comment has caused some registered representatives to decide to become investment advisors, charging a fee for their services. Generally, this results in a much higher charge to the investor.

The C share trail should also be calculated on the current value and not the sale price of the investment. Using this method best aligns the interests of the client and the advisor. If the value of the fund goes up, the advisor is rewarded with a larger fee. If the value decreases, the advisor will need to rethink the investment. It is extremely important to this reevaluation that when using C shares the advisor may make needed changes without a detriment to the client.

From reviewing the Broker Village data I realize that the C shares may become more expensive over a very long period of time, and that the SEC has a strong incentive to require the C shares to "flip" to A shares, with a lower "trail." However I submit that when used as "advisor" shares the C shares are not commissions for a past sale, but compensation for current services. With appropriate up front disclosure, advisors and clients should be permitted to enter into these arrangements.

The mandatory “flip” may also cause a conflict by encouraging the less scrupulous registered representatives to switch a client to another fund simply to maximize the rep’s compensation, which would not work to the advantage of the client or the fund. If some “flip” is required, I recommend following the American Funds model. American Funds is noted for low expenses and good breakpoints. They have calculated the C share “flip” at 10 years. This is a more reasonable prospect than requiring innumerable complex calculations with uncertain and unintended results.

One unquestionable “take away” I had from the review of the attached Broker Village report is that neither the current nor the proposed share class structure has any hard and fast rules or easy answers as to which share class is most beneficial to investors. Whether we maintain the current fee structure or adopt a new fee structure I strongly urge the SEC/ FINRA to make available some powerful tools that will help us make a decision on which share class that we should use. While the Mutual Fund Expense Analyzer is a great start, I believe that we need more flexibility and guidance to help us make these determinations. While cost is an important question for all of us, it is especially vital to smaller firms. Please help provide us with tools and templates to help us better do our jobs and serve our clients.

I implore you to consider the following:

1. Design 12b2 to mimic the attributes of 12b1s;
2. Calculate “deferred” compensation based upon the current and not initial value of the investment, since this most closely aligns the interests of the investor and advisor;
3. Mandate greater disclosure of fees, costs, and conflicts prior to sale<sup>6</sup> including a description of ongoing services to be provided to the client by the advisor.

In closing, I believe that the SEC’s proposal will have little benefit to the investor, yet come at a tremendous cost to the industry.

Thank you for the opportunity to comment on this important issue, and thank you for your continued efforts to make our financial marketplace better for our clients and our industry.

Sincerely,



Aimee A. Toth, Esq.

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<sup>6</sup> The SEC has made a tremendous advance with the implementation of the Summary Prospectus. Disclosure of fees and conflicts could easily be added to this document, and the document provided to the investor PRIOR to sale.

November 2 2010

Ms. Aimee A. Toth  
Chief Compliance Officer / General Counsel  
Allegheny Financial Group / Allegheny Investments  
Stone Quarry Crossing  
811 Camp Horne Road, Suite 100  
Pittsburgh, PA 15237

Dear Ms. Toth:

The SEC has proposed changes to the rules governing 12b-1 fees. One of the SEC's goals is to protect mutual fund investors from paying "disproportionate" marketing-related fees. The assumption is that, as investors become more informed about product choices and related fees, they will make better investment decisions. All else equal, their account values should be higher as a result.

The SEC has requested comment letters on the proposal. As you prepare your letter, you have asked for our perspective, which is included herein. As agreed, we will not comment on changes that relate to registration requirements, accounting procedures, and director-level responsibilities.

Using proper mathematical methods, we evaluate the veracity of key assumptions that underlie the proposal. Then we discuss implications of enacting it. We focus in two areas: a) the relation between cost and account value; and b) whether conflicts-of-interest necessarily are of import.

Recall that our firm's math powers the world's most popular mutual fund "calculator": the [FINRA Fund Analyzer](#). In fact, the SEC website links to it. We also supply analytics and consulting services to FINRA that cover retirement planning and distributions, college and 529 planning, and debt management.

#### **BACKGROUND ON SEC PROPOSAL S7-15-10**

The proposal reflects a laudable effort to help mutual fund investors. It contains proposed changes to disclosure and to fund pricing profiles. Clearly, the focus is on cost cutting:

*The proposed...amendments are designed to protect individual investors from paying disproportionate amounts of sales charges in certain share classes. [W]e are proposing a new approach to asset-based distribution fees (i.e., 12b-1 fees) that is designed to benefit fund shareholders while minimizing disruption of current arrangements.(Release, pages 2 and 37.)*

**Disclosure-oriented changes:** The changes concern fund commission payments and operating fees. The belief is that, by enhancing disclosure, fund costs will be driven down. Also, investors will detect conflict-of-interests more easily and determine whether they influence trade decisions.

Some changes would require B/Ds to include more commission data on trade confirms. The disclosure is non-comparative and, as the SEC recognizes, conveyed *post-trade*. To affect a trade, it must be comparative, complete, and available *pre-trade*. Such information rarely is supplied in a prospectus nor would a changed confirm supply it. Thus, as proposed, the changes would have little impact.

B/Ds could be relieved of some of the cost and effort to comply. As a pre-trade conveyance, a prospectus is the proper place to disclose much of this information. Additional text and a chart is all that is needed. This no-cost effort is the mandate of a fund firm, not a B/D. We address this point on the following pages.

Per several already-submitted comment letters, the consensus is that more clarity (or "transparency") in a prospectus is necessary. Consider Morningstar's October 20th letter. They argue that more clarity is needed with respect to *all* the fees that comprise an expense ratio, not just one, namely the 12b-1 fee. Component fees should be renamed and allocated to one of four buckets: Management, Sales and Marketing, Advice, and Administrative Overhead. We agree. It is hard to see a downside to their proposal.

Will more detail about fees translate into altered decision-making? If a 0.25% 12b-1 fee is renamed and better described, will an investor care? A fine fund from MFS or Putnam still will be a fine fund. It has a rightful place in an investor's portfolio because its risk/return profile is suitable, the financial advisor receives proper support, and he is fairly compensated for selling it. So, it is a huge leap of faith to believe that more exactitude about fees will affect a decision. It won't hurt, but it won't help.

**Pricing-oriented changes:** These changes concern the pricing profiles and mechanics of shares. Those with 12b-1s above 0.25% later must convert (or "flip") to a lower-cost share, as B-shares commonly do. Most directly affected will be C-shares, as their long-term costs will fall. By how much, and the implications for other share classes and account-types, depends on the fund and mechanics of the conversion.

The SEC proposed a formulaic approach to the conversion that is based on a "reference load." (Release, page 53.) That is the highest load for any share of that fund. The reference load, divided by the excess 12b-1 fee (the level above 0.25%), equals the conversion period. Hence,  $5.25\%/0.75\%$  would imply a seven-year period. Fund firms can convert shares sooner but, for economic reasons, likely won't.

Despite apparent flexibility, the approach is very restrictive. It is "one-size-fits-all." Firms with profoundly different pricing profiles will be treated similarly but affected differently. Firms with relatively low loads, like Alliance (4.25%), will be penalized more than firms with higher loads, like Putnam (5.75%). Alliance's conversion period would be shorter than Putnam's: 5.7 vs. 7.7 years.

A shorter conversion period may lead to more churning and lower revenue. Most C-shares pay out 12b-1s as a 1% trail commission. Investor costs would fall modestly upon conversion, but financial advisor trails would plummet 75%, to 0.25%. To maintain a 1% trail, some advisors will swap clients into C-shares of a new fund firm. Management fee revenue falls prematurely for the firm managing the sold fund.

C-shares should convert, but the manner in which they do must be financially prudent for the fund. Intense analytics (which are available) are needed to determine the optimal method, which varies by fund firm.

Since C-share sales are 10 - 15% of load sales, industry officials may not care much about this issue. That view would be short sighted. Consequences apply well beyond C-shares, for fund firms and B/Ds.

Consider Alliance and Dreyfus. The impact on these firms is completely different. Assume any trade below \$100,000. Whether C-shares flip or not, the relative merit of Dreyfus stock fund shares is constant. In terms of highest account value for seven-plus years, B-shares are best for investors. (We know B-share sales were stopped.) A-shares are second best. C-shares always are the worst long-term option. (Figure 1.)

The opposite is true for Alliance. Now, A-shares are best for long-term investors; C-shares are worst. If C's convert as proposed, they become an investor's best choice for *any* horizon and *any* return! Account values always are higher for C's than A's or B's. We cannot imagine the fall-out to Alliance. (Figure 2.)

The consequences go farther. The conversion of C-shares may have a negative impact on financial advisors and RIAs who use wrap programs. That result would not be good for B/D revenue. In their September 23<sup>rd</sup> letter, "Motley Fool," the popular financial media company, makes a very frank point:

*"[T]he SEC...is simply naïve in thinking that any change to the current structure can result in cost savings to investors...[S]ome financial advisors will guide their clients into even more expensive "wrap accounts" if they are prevented from levying the unlimited, ongoing sales charges currently available."*

We agree, with a caveat. Advisors can swap clients into other C-shares, as we noted. Other advisors will switch to wrap, but wrap sales will be harder to justify. Take a \$100,00 account, with a 1.5% wrap fee, and 1% load-waived A's. Cost is 2.5%/yr. Non-flipping C's cost 1.75%. Though return, liquidity, and client service are largely equal, investors pay 43% more for wrap (2.5/1.75). If C's flip after seven years, wrap becomes very expensive. Post flip, clients would pay 150% more than staying in C-shares (2.5/1.0).

### **OUR PERSPECTIVE ON THE SEC PROPOSAL**

We do not believe that the proposed changes will make a meaningful difference to investors. The impact on the industry, however, could be unnecessarily adverse.

By forcibly reducing 12b-1 fees, most C-shares will convert six to eight years after purchase. Only *then* would existing shareholders benefit. But that period is much longer than investors normally hold shares. Our skepticism is supported by the SEC's own estimate of holding period:

*"...[T]he typical fund shareholder only holds fund shares for approximately 3-4 years. (Release, page 201.) "Based on average holding periods for funds generally, we expect that only a limited portion of outstanding class C shares would be held long enough for any asset-based distribution fees on class C shares to exceed the proposed ongoing sales charge limit." (Release, page 225.)*

Instead of fixating on 12b-1 fees, the SEC should focus on costs that are more substantial and completely negative. They include wrap fees, sales charges, CDSCs, fund-level trading costs, and investor-level taxes on income, redemptions, and gains. These costs often have a much greater impact on account value.

Consider A-shares from fine firms like Lord Abbett, MFS, and American Funds. For each firm, the top sales load (5.75%) is far more consequential than a 12b-1 fee for "typical fund shareholders." To see this, assume a "typical" four-year horizon, at 5%/yr, for the Growth Fund of America. Investors pay 0.77% more in annual fees for B- and C-shares than for A's. (A-, B-, and C-share 12b-1s: 0.23%, 1%, & 1%.) For a \$10,000 trade, they pay a \$575 A-share load up front vs. \$335 in extra C-share 12b-1s. Since C-share account values are higher (\$11,461 vs. \$11,141), why the 12b-1 fixation? (Figure 3.)

To cut costs, the SEC could simply mandate a reduction in the maximum A-share load. FINRA and the SEC did just that in 1975. Moreover, why not cap CDSCs, which often top out at 5%? Either option is easier and less costly to implement, and would benefit more investors. For perspective, the estimated cost to comply with all aspects of the proposal is \$2+ billion for the first five years after enactment. (Release, page 225.) That is a huge amount given that the SEC expects so few shares to be affected.

### **OUR SUGGESTIONS ARE CONSISTENT WITH THE SEC'S GOALS**

The SEC should change its focus. They should be concerned with how:

- a) Overall cost affects account value; and
- b) Advisor-level commissions, *paid over time*, affect investment recommendations.

Market forces then will move the industry in the right direction, for the average investor will become a better investor. Forcibly flipping C-shares, and reformatting confirms, become unnecessary. Happily, the cost and effort required to effect our suggestions are virtually zero.

It is not necessarily true that reducing cost maximizes account value. Belief in this "conventional wisdom" is at the core of the SEC's current effort. Cost is not the problem. Poor investor choice is the problem. And poor choice manifests from undisclosed conflicts of interest and from the ill-advised application of the conventional wisdom. Both problems are remarkably easy to fix.

***Focus on overall cost:*** Investors commit money to the market to earn a return, not to reduce fees. Joe says: "I invest \$100 to earn a return so I can send my son to college." He doesn't say: "I invest \$100 so I can keep my mutual fund fees low." Paying for college is achieved by maximizing account value, not by minimizing investment cost. If you focus on the former, the latter takes care of itself.

Cost is no proxy for account value unless all else is equal. For no-loads, all else *is* equal, except for expense ratios. So, lower cost equates to higher value. This "wisdom" is utterly false for most load funds, since all else is not equal. A-shares have a front-end load, not B's and C's. B-shares convert, not A's and C's (yet). Only B's have a CDSC schedule. Odd as it seems, a high cost share can outperform a low cost share.

The conventional wisdom manifests as this axiom: “Buy A-shares for the long-term as lower operating costs will offset a sales load.” The corollary also is suspect: “The lowest cost share will outperform over time.” As we will see, the interplay of many factors makes it unwise to apply this wisdom blindly.

Consider a \$49,000 trade, earning 5% per year, in the Lord Abbett Affiliated Fund. This is a very popular fund from a well-known firm. Figure 4 displays account values through year ten. Look closely. B-shares are best in terms of long-term account value, which surprises many people. (Figure 4.)

The solution to the problem of poor choice is to focus investors on account value and not cost. This is incredibly easy. Simply include an account values chart in the prospectus. Then the problem of confusing low cost with higher account value is eliminated completely. There is no cost except for the ink.

And there is precedent. Consider an Invesco Funds prospectus. (Figure 5.) Near the front, there is an easy-to-read table that projects account values and associated costs. Account value is shown above annual expense. The chart is simply a more complete form of a Fee and Expense Example, which the SEC already requires (and Invesco supplies earlier). For any holding period, investors easily can tell if their share class choice will result in the highest account value. For C-share investors, it is easy to see that, in the long term (after nine years), C’s make little sense; A- and B-share account values always are higher.

Our suggested chart would differ slightly from Invesco’s. So share class comparisons would be easier to make, we would show cumulative costs, not annual. Also, Invesco’s chart does not reflect CDSCs (but that is disclosed). To create a complete, comparative picture, CDSCs should be reflected.

If investors focused on account value, ***costs will fall***. Investors will favor higher performing funds. Other funds will need to make their shares more competitive. The only way is by cutting fees. They may cut sales loads, management fees, transfer agent costs, or 12b-1 fees. But cut they must. No need for the SEC to mandate a one-size-fits all policy of flipping C’s. Let the fund firms decide how to cut fees.

***Show advisor pay over time:*** Conflicts-of-interest only matter if they are significant enough to affect a financial advisor’s recommendations. If not, they are of little import.

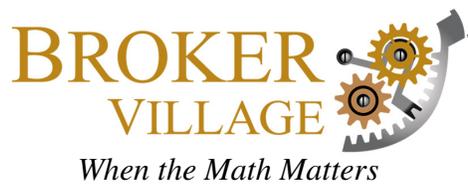
The SEC proposal is concerned with helping investors identify conflicts-of-interest. To do so, the SEC wants to add more point-of-sale data to confirms. But confirms are delivered post-trade and, discussed, the new information would not be complete or comparative. So, in our view, the changes will not affect an investor’s ability to identify conflicts nor will costs be driven down.

This problem is complicated by the fact that SEC prospectus disclosure mandates are inconsistent. Funds must disclose point-of-sale payments to advisors for A-shares, yet B- and C-share payments may (and often do) appear in the SAI. Moreover, advisor reallowances for A-shares are not always shown. If a sales charge is 5.75%, advisors usually are credited with 4.75% or 5%, excluding trails. (The fund firm keeps the rest.) At least one-third of prospectuses do not disclose these important facts.

The solution again is easy and no cost, except for ink. There is no need to force B/Ds to reconfigure a trade confirm. Simply add a chart to the Compensation section of a prospectus. Figure 6 displays our proposed chart for Dreyfus Core Value, a fine find from a fine firm. (We show figures, not required text.)

Consider a \$40,000 trade. A-shares pay 5% plus a 0.25% trail. B’s pay 4% with a 0.25% trail starting in year two. C’s pay 1% and 1%/yr. In year one, to \$50,000, advisors are paid 31% more to sell A’s than B’s (5.25/4). Year one pay is \$2,096 for A’s yet \$1,600 for B’s. A \$496 differential is significant enough for some advisors to promote A’s over B’s and C’s. Importantly, A’s never are best for investors.

First, note that all shares are treated similarly from a pay disclosure perspective. The year one payments for all shares are disclosed in one area. Investors clearly see that, for typical load equity funds, through end-of-year one, A-shares pay up to 5.25% while B-shares pay 4% and C-shares pay 1%.



Second, cumulative pay is disclosed. C-shares, for example, generally pay 1% up front and 1%/yr in perpetuity. C-share pay can be extraordinarily high for high-performing funds in the long-term.

Third, for information to be comparative, pay for all shares is disclosed alongside account value. Pay for one share does not allow investors to discern whether a conflict exists *and* is meaningful. If one share pays more than another, yet does not create the highest account value, then the conflict is meaningful.

By including this information in a prospectus, the post-trade problem of conveying pay data on confirms is addressed. Prospectuses are available in print and on websites prior to a trade. While IPO rules allow for the delivery of a prospectus post-trade, the prospectus is available to anyone pre-trade.

#### **CONCLUSION**

If adopted, the SEC's proposal may reduce fund fees paid by very few investors. It would do so at a significant cost to the industry. These costs may end up being passed on to investors.

Easy, no cost solutions exist for the issues of concern to the SEC. By focusing on account, not cost, investors will make better decisions. Costs will fall. If prospectuses displayed complete and comparative pay figures for all shares, meaningful conflicts of interest will be easier to identify. Investors will gravitate towards higher performing funds, which will force other funds to lower their costs.

At the fund firm and B/D levels, to the extent they must make decisions that affect their revenue, share fund-specific analytics are required. Those analytics have been affordably available for years. If deployed across the industry, akin to a Bloomberg terminal for professional traders, the SEC, fund firms, B/Ds, and investors would be on equal playing fields. Efficiencies would increase, decision-making would improve, and the SEC's aim achieved: higher account values and lower costs.

Respectfully,

Douglas J. Weber  
Director of Research and Client Service  
Broker Village

Stuart J. Speckman, CFA, CFP  
Chairman  
Broker Village

**Figure 1: SEC 12b-1 proposal affects fund firms differently.** The impact of a converting C-share is specific to the fund firm and, at times, the fund itself. Here \$99,000 is invested in Dreyfus Core Value at 5%/yr. **At top, after ten years, B-shares are the best in terms of account value by \$4,140. C-shares are worst (\$137,363 vs. \$133,224). C's did not convert. At bottom, if C-shares convert per the SEC formula, the relative merits are unchanged. B's still are best and C's still are worst, but the differential is much smaller: \$1,790 (\$137,363 vs. \$135,574).** Note the violation of conventional wisdom. Even to \$99,000, for this fund, the best long-term share is B-shares. This is true for any long horizon and any return.

Year -->	1	2	3	4	5	6	7	8	9	10
<b>Class Rank by Highest Account Value</b>										
Best	C	C	C	C	C	C	B	B	B	B
2nd Best	A	A	A	A	A	A	A	A	A	A
Worst	B	B	B	B	B	B	C	C	C	C

<b>Class Rank by Lowest Expense</b>										
Lowest	C	C	C	C	C	A	A	A	A	A
2nd Best	A	A	A	A	A	C	B	B	B	B
Highest	B	B	B	B	B	B	C	C	C	C

<b>Account Values, Maximum CDSCs Applied</b>										
A-Shares	\$98,127	\$101,846	\$105,705	\$109,710	\$113,867	\$118,181	\$122,659	\$127,307	\$132,131	\$137,137
B-Shares	\$98,034	\$101,118	\$105,285	\$108,559	\$112,921	\$117,386	\$122,861	\$127,517	\$132,348	\$137,363
C-Shares	\$100,993	\$105,057	\$108,223	\$111,484	\$114,844	\$118,305	\$121,870	\$125,543	\$129,326	\$133,224
Differential	\$2,960	\$3,939	\$2,938	\$2,925	\$1,923	\$919	\$991	\$1,974	\$3,022	\$4,140

Year -->	1	2	3	4	5	6	7	8	9	10
<b>Class Rank by Highest Account Value</b>										
Best	C	C	C	C	C	C	B	B	B	B
2nd Best	A	A	A	A	A	A	A	A	A	A
Worst	B	B	B	B	B	B	C	C	C	C

<b>Class Rank by Lowest Expense</b>										
Lowest	C	C	C	C	C	A	A	A	A	A
2nd Best	A	A	A	A	A	C	B	B	B	B
Highest	B	B	B	B	B	B	C	C	C	C

<b>Account Values, Maximum CDSCs Applied</b>										
A-Shares	\$98,127	\$101,846	\$105,705	\$109,710	\$113,867	\$118,181	\$122,659	\$127,307	\$132,131	\$137,137
B-Shares	\$98,034	\$101,118	\$105,285	\$108,559	\$112,921	\$117,386	\$122,861	\$127,517	\$132,348	\$137,363
C-Shares	\$100,993	\$105,057	\$108,223	\$111,484	\$114,844	\$118,305	\$121,870	\$125,855	\$130,624	\$135,574
Differential	\$2,960	\$3,939	\$2,938	\$2,925	\$1,923	\$919	\$991	\$1,661	\$1,724	\$1,790

**Figure 2: SEC 12b-1 proposal affects fund firms differently.** The impact of a converting C-share is specific to the fund firm and, at times, the fund itself. \$99,000 is invested in the Alliance Bernstein Growth Fund at 5%/yr. **At top, after ten years, A-shares are the best in terms of account value. C-shares are worst by \$3,973 (\$131,973 vs. \$128,000). C's did not convert. At bottom, if C-shares convert per the SEC formula, the relative merits change dramatically. C's now are best and B's now are worst by \$3,296 (\$132,169 vs. \$128,873).**

Year -->	1	2	3	4	5	6	7	8	9	10
<b>Class Rank by Highest Account Value</b>										
Best	C	C	C	C	C	A	A	A	A	A
2nd Best	A	A	A	B	B	C	C	C	C	B
Worst	B	B	B	A	A	B	B	B	B	C

<b>Class Rank by Lowest Expense</b>										
Lowest	C	C	C	C	C	A	A	A	A	A
2nd Best	A	A	A	A	A	C	C	C	B	B
Highest	B	B	B	B	B	B	B	B	C	C

<b>Account Values, Maximum CDSCs Applied</b>										
A-Shares	\$97,982	\$101,278	\$104,686	\$108,208	\$111,848	\$115,612	\$119,501	\$123,522	\$127,678	\$131,973
B-Shares	\$97,515	\$101,042	\$104,632	\$108,287	\$112,008	\$114,809	\$117,679	\$120,620	\$124,679	\$128,873
C-Shares	\$100,586	\$104,220	\$106,932	\$109,715	\$112,570	\$115,499	\$118,505	\$121,589	\$124,753	\$128,000
Differential	\$3,072	\$3,178	\$2,300	\$1,507	\$722	\$803	\$1,823	\$2,901	\$2,999	\$3,973

Year -->	1	2	3	4	5	6	7	8	9	10
<b>Class Rank by Highest Account Value</b>										
Best	C	C	C	C	C	C	C	C	C	C
2nd Best	A	A	A	B	B	A	A	A	A	A
Worst	B	B	B	A	A	B	B	B	B	B

<b>Class Rank by Lowest Expense</b>										
Lowest	C	C	C	C	C	A	A	A	A	A
2nd Best	A	A	A	A	A	C	C	C	C	C
Highest	B	B	B	B	B	B	B	B	B	B

<b>Account Values, Maximum CDSCs Applied</b>										
A-Shares	\$97,982	\$101,278	\$104,686	\$108,208	\$111,848	\$115,612	\$119,501	\$123,522	\$127,678	\$131,973
B-Shares	\$97,515	\$101,042	\$104,632	\$108,287	\$112,008	\$114,809	\$117,679	\$120,620	\$124,679	\$128,873
C-Shares	\$100,586	\$104,220	\$106,932	\$109,715	\$112,570	\$115,783	\$119,679	\$123,705	\$127,867	\$132,169
Differential	\$3,072	\$3,178	\$2,300	\$1,507	\$722	\$975	\$2,000	\$3,085	\$3,189	\$3,296

**Figure 3: The SEC 12b-1 proposal will have little impact on the “typical shareholder.”** \$10,000 is invested in American Funds Growth Fund of America at 5%/yr. Holding period is the SEC-defined “typical” horizon of four years. For this trade, investors pay a \$575 A-share load up front vs. \$335 in extra C-share 12b-1s (neither shown). Since C-share account values are higher (\$11,461 vs. \$11,141), why the fixation on 12b-1 fees? The \$575 sales load is a far bigger cost.

Year -->	1	2	3	4	5	6	7	8	9	10
<b>Class Rank by Highest Account Value</b>										
Best	C	C	C	C	C	C	B	A	A	A
2nd Best	B	B	A	B	B	B	C	B	B	B
Worst	A	A	B	A	A	A	A	C	C	C
<b>Class Rank by Lowest Expense</b>										
Lowest	C	C	C	C	C	C	A	A	A	A
2nd Best	A	B	A	A	A	A	B	B	B	B
Highest	B	A	B	B	B	B	C	C	C	C
<b>Account Values, Maximum CDSCs Applied</b>										
A-Shares	\$9,828	\$10,249	\$10,687	\$11,144	\$11,621	\$12,118	\$12,637	\$13,177	\$13,741	\$14,329
B-Shares	\$9,849	\$10,310	\$10,684	\$11,170	\$11,670	\$12,184	\$12,713	\$13,156	\$13,719	\$14,306
C-Shares	\$10,247	\$10,706	\$11,077	\$11,461	\$11,858	\$12,270	\$12,695	\$13,135	\$13,591	\$14,062
Differential	\$419	\$457	\$393	\$317	\$237	\$151	\$76	\$42	\$150	\$267

**Figure 4: Cost is no proxy for account value.** A higher cost share can accrete to higher account values. \$49,000 is invested in the Lord Abbeatt Affiliated Fund at 5%/yr. B-shares are better than A-shares in the long-term, yet cost more. After 10 years, B's cost \$237 more than A's (\$8,052 vs. \$7,814) yet create \$499 more value (\$69,389 vs. \$68,890). Conventional wisdom is violated: cost is no proxy for account value. This relation holds for any trade to \$49,999, for any long horizon, and any return.

Year -->	1	2	3	4	5	6	7	8	9	10
<b>Class Rank by Highest Account Value</b>										
Best	C	C	C	C	C	C	B	B	B	B
2nd Best	B	B	B	B	B	B	C	C	C	A
Worst	A	A	A	A	A	A	A	A	A	C
<b>Class Rank by Lowest Expense</b>										
Lowest	C	C	C	C	C	C	B	A	A	A
2nd Best	B	B	B	A	B	B	C	C	B	B
Highest	A	A	A	B	A	A	A	B	C	C
<b>Account Values, Maximum CDSCs Applied</b>										
A-Shares	\$48,067	\$50,028	\$52,069	\$54,194	\$56,405	\$58,706	\$61,101	\$63,594	\$66,189	\$68,890
B-Shares	\$48,219	\$50,435	\$52,709	\$54,554	\$56,952	\$59,415	\$61,946	\$64,055	\$66,669	\$69,389
C-Shares	\$50,179	\$52,395	\$54,179	\$56,024	\$57,932	\$59,905	\$61,946	\$64,055	\$66,237	\$68,493
Differential	\$2,112	\$2,367	\$2,110	\$1,831	\$1,527	\$1,199	\$844	\$461	\$480	\$896
<b>Expenses, Maximum CDSCs Applied</b>										
A-Shares	\$3,232	\$3,664	\$4,113	\$4,580	\$5,067	\$5,573	\$6,100	\$6,649	\$7,220	\$7,814
B-Shares	\$3,212	\$3,511	\$3,836	\$4,679	\$5,061	\$5,472	\$5,914	\$6,878	\$7,453	\$8,052
C-Shares	\$1,252	\$1,551	\$2,366	\$3,209	\$4,081	\$4,982	\$5,914	\$6,878	\$7,875	\$8,905

**Figure 5: Account values table solves poor choice problem.** This chart excerpt is found on page 10 of the current Invesco Basic Value Fund prospectus. (Full table shows more shares classes.) Account balances are shown above annual costs. It is easy for any investor to tell which share class is best for their anticipated holding period *without focusing on cost*. In the long-term, note that C-shares are not best.

Class A (Includes Maximum Sales Charge)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Annual Expense Ratio <sup>1</sup>	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%
Cumulative Return Before Expenses	5.00%	10.25%	15.76%	21.55%	27.63%	34.01%	40.71%	47.75%	55.13%	62.89%
Cumulative Return After Expenses	2.11%	5.41%	9.06%	12.82%	16.73%	20.66%	24.61%	28.58%	32.51%	36.47%
End of Year Balance	\$ 9,789.26	\$10,140.69	\$10,504.74	\$10,881.86	\$11,272.52	\$11,677.20	\$12,096.41	\$12,530.68	\$12,980.53	\$13,446.53
Estimated Annual Expenses	\$ 685.64	\$ 140.51	\$ 145.55	\$ 150.78	\$ 156.19	\$ 161.80	\$ 167.60	\$ 173.62	\$ 179.85	\$ 186.31
<b>Class B<sup>2</sup></b>										
Annual Expense Ratio <sup>1</sup>	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	1.41%	1.41%
Cumulative Return Before Expenses	5.00%	10.25%	15.76%	21.55%	27.63%	34.01%	40.71%	47.75%	55.13%	62.89%
Cumulative Return After Expenses	2.84%	5.76%	8.76%	11.85%	15.03%	18.30%	21.66%	25.11%	28.60%	32.26%
End of Year Balance	\$10,284.00	\$10,576.07	\$10,876.43	\$11,185.32	\$11,502.98	\$11,829.66	\$12,165.63	\$12,511.13	\$12,960.28	\$13,425.55
Estimated Annual Expenses	\$ 219.07	\$ 225.29	\$ 231.69	\$ 238.27	\$ 245.03	\$ 251.99	\$ 259.15	\$ 266.51	\$ 179.57	\$ 186.02
<b>Class C<sup>2</sup></b>										
Annual Expense Ratio <sup>1</sup>	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%
Cumulative Return Before Expenses	5.00%	10.25%	15.76%	21.55%	27.63%	34.01%	40.71%	47.75%	55.13%	62.89%
Cumulative Return After Expenses	2.84%	5.76%	8.76%	11.85%	15.03%	18.30%	21.66%	25.11%	28.66%	32.32%
End of Year Balance	\$10,284.00	\$10,576.07	\$10,876.43	\$11,185.32	\$11,502.98	\$11,829.66	\$12,165.63	\$12,511.13	\$12,866.45	\$13,231.85
Estimated Annual Expenses	\$ 219.07	\$ 225.29	\$ 231.69	\$ 238.27	\$ 245.03	\$ 251.99	\$ 259.15	\$ 266.51	\$ 274.08	\$ 281.86

**Figure 6: Conflicts of interest are easy to evaluate with the proper chart.** This chart details payments to financial advisors for the Dreyfus Core Value Fund. The trade is \$40,000 at a 5% return. Point of sale pay is 5%, 4%, and 1% for A-, B-, and C-shares. 0.25%/yr trails start for A's in year one and year two for B's. Annual C-share trails of 1% start in year two. **After ten years, C-shares pay reps \$4,652, which is 48% more than A's and 74% more than B's. Clearly, a meaningful conflict exists for long-term investors since C's are not best in the long-term. Now look at year one. A's pay \$2,096, which is 31% more than B's (\$1,600), and 425% more than C's (\$400). That would not be a problem except that A-shares never are best for investments under \$50,000. While new sales of B's were halted, investors need to be wary.**

Year -->	1	2	3	4	5	6	7	8	9	10
<b>Class Rank by Highest Account Value</b>										
Best	C	C	C	C	C	C	B	B	B	B
2nd Best	B	B	B	B	B	B	C	A	A	A
Worst	A	A	A	A	A	A	A	C	C	C
<b>Account Values, Maximum CDSCs Applied</b>										
A-Shares	\$39,128	\$40,611	\$42,150	\$43,747	\$45,405	\$47,125	\$48,911	\$50,764	\$52,687	\$54,684
B-Shares	\$39,610	\$40,856	\$42,540	\$43,862	\$45,625	\$47,429	\$49,641	\$51,522	\$53,474	\$55,500
C-Shares	\$40,805	\$42,447	\$43,726	\$45,044	\$46,402	\$47,800	\$49,240	\$50,724	\$52,253	\$53,828
Differential	<b>\$1,677</b>	<b>\$1,836</b>	<b>\$1,577</b>	<b>\$1,297</b>	<b>\$997</b>	<b>\$675</b>	<b>\$730</b>	<b>\$797</b>	<b>\$1,221</b>	<b>\$1,673</b>
<b>Rep Pay, Based on Gross GDC</b>										
A-Shares	\$2,096	\$2,196	\$2,299	\$2,407	\$2,518	\$2,634	\$2,754	\$2,878	\$3,008	\$3,142
B-Shares	\$1,600	\$1,705	\$1,812	\$1,923	\$2,038	\$2,156	\$2,277	\$2,404	\$2,535	\$2,671
C-Shares	\$400	\$818	\$1,249	\$1,693	\$2,150	\$2,621	\$3,106	\$3,606	\$4,121	\$4,652

## Screenshots for Allegheny Investments

Below are three screenshots. They concern a trade in the Lord Abnett Affiliated fund. The pricing profile for the fund is from the current prospectus.

A \$75,000 trade is evaluated at each year-end for ten years. Nominal returns are 8%/yr, 0%, and -8%/yr. That return is at the portfolio level. Each share class will perform proportionately worse, reflective of the total costs of ownership for that particular share. For example, A-shares will reflect a 4.75% load (as the first breakpoint is at \$50,00) and B-shares will reflect a flip after eight years. Full CDSCs are applied to B- and C-shares.

Sincerely,

Stu Speckman, CFA, CFP  
November 3, 2010

\*\*\*\*\*

**Image 1: 8%/yr Return.** Lord Abnett affiliated Fund, \$75,000 trade, B's flip, but not C's, and applicable A-share load is 4.75% (\$475).

Fund Data				12b-2 Share Class Analysis Tool										
				This Tool is for Use Only by Broker Village										
				 <small>(c) 2010 Broker Village, <a href="http://www.brokervillage.com">www.brokervillage.com</a> </small>										
Fund Number (1 to 4)				Year -->										
Lord Abnett Affiliated				Class Rank by Highest Account Value										
Investment, One Time				Class Rank by Lowest Expense										
Return, Pre-Expense				Account Values, Maximum CDSCs Applied										
Apply Load? (y/n)				Expenses, Maximum CDSCs Applied										
Apply Flip to B & C? (y/n)				12b-1 Fees as Percentage of Total Cost (Exclusive of Taxes)										
Use SEC C-Share Flip? (n)				Rep Pay, Based on Gross GDC										
Use Max (m) or Derived (m)														
Apply CDSC? (y/n)														
Apply Max CDSC? (y/n)														
Gross (g) or Net (n) Pay (g)														
Breakpoint Schedule: Class A														
Low Limit	Hi Limit	Load	To Rep											
\$1	\$24,999	5.75%	5.00%											
\$25,000	\$49,999	5.75%	5.00%											
\$50,000	\$99,999	4.75%	4.00%											
\$100,000	\$249,999	3.95%	3.25%											
\$250,000	\$499,999	2.75%	2.25%											
\$500,000	\$749,999	1.95%	1.75%											
\$750,000	\$999,999	1.95%	1.75%											
\$1,000,000	*****	0.00%	1.00%											
Max Load														
Derived Load, Pay (%)														
Derived Load, Pay (\$)														
Expense Ratios, Flips														
A	0.86%	100.00%												
B	1.53%	100.00%												
C	1.53%	100.00%												

**Image 2: 0% Return.** \$75,000 trade, B's flip, but not C's, and applicable A-share load is 4.75% (\$475).

Fund Data				<b>12b-2 Share Class Analysis Tool</b>											<b>BROKER VILLAGE</b>			
Fund Number (1 to 4)				This Tool is for Use Only by Broker Village											(c) 2010 Broker Village, <a href="http://www.broker-village.com">www.broker-village.com</a>			
Lord Abbett Affiliated				Year -->														
Investment, One Time				Class Rank by Highest Account Value														
Return, Pre-Expense				Best														
Apply Load? (y/n)				2nd Best														
Apply Flip to B & C? (y/n)				Worst														
Use SEC C-Share Flip?				Class Rank by Lowest Expense														
Use Max (m) or Derived				Lowest														
Apply CDSC? (y/n)				2nd Best														
Apply Max CDSC? (y/n)				Highest														
Gross (g) or Net (n) Pay				Account Values, Maximum CDSCs Applied														
				A-Shares														
				B-Shares														
				C-Shares														
				Differential														
				Expenses, Maximum CDSCs Applied														
				A-Shares														
				B-Shares														
				C-Shares														
				12b-1 Fees as Percentage of Total Cost (Exclusive of Taxes)														
				A-Shares														
				B-Shares														
				C-Shares														
				Rep Pay, Based on Gross GDC														
				A-Shares														
				B-Shares														
				C-Shares														
Fund Data																		
Fund Number (1 to 4)				1														
Lord Abbett Affiliated																		
Investment, One Time				\$75,000														
Return, Pre-Expense				0.00%														
Apply Load? (y/n)				y														
Apply Flip to B & C? (y/n)				y														
Use SEC C-Share Flip?				n														
Use Max (m) or Derived				m														
Apply CDSC? (y/n)				y														
Apply Max CDSC? (y/n)				y														
Gross (g) or Net (n) Pay				g														
Breakpoint Schedule: Class A																		
Low Limit				Hi Limit														
				Load														
				To Rep														
\$1				\$24,999											5.75%		5.00%	
\$25,000				\$49,999											5.75%		5.00%	
\$50,000				\$99,999											4.75%		4.00%	
\$100,000				\$249,999											3.95%		3.25%	
\$250,000				\$499,999											2.75%		2.25%	
\$500,000				\$749,999											1.95%		1.75%	
\$750,000				\$999,999											1.95%		1.75%	
\$1,000,000				*****											0.00%		1.00%	
Max Load				5.75%														
Derived Load, Pay (%)				4.75%											4.00%			
Derived Load, Pay (\$)				\$3,563											\$3,000			
Expense Ratios, Flips				% to Total														
A				0.88%											100.00%			
B				1.53%											100.00%			
C				1.53%											100.00%			

**Image 3: -8%/yr Return.** \$75,000 trade, B's flip, but not C's, and applicable A-share load is 4.75% (\$475).

Fund Data				<b>12b-2 Share Class Analysis Tool</b>											<b>BROKER VILLAGE</b>			
Fund Number (1 to 4)				This Tool is for Use Only by Broker Village											(c) 2010 Broker Village, <a href="http://www.broker-village.com">www.broker-village.com</a>			
Lord Abbett Affiliated				Year -->														
Investment, One Time				Class Rank by Highest Account Value														
Return, Pre-Expense				Best														
Apply Load? (y/n)				2nd Best														
Apply Flip to B & C? (y/n)				Worst														
Use SEC C-Share Flip?				Class Rank by Lowest Expense														
Use Max (m) or Derived				Lowest														
Apply CDSC? (y/n)				2nd Best														
Apply Max CDSC? (y/n)				Highest														
Gross (g) or Net (n) Pay				Account Values, Maximum CDSCs Applied														
				A-Shares														
				B-Shares														
				C-Shares														
				Differential														
				Expenses, Maximum CDSCs Applied														
				A-Shares														
				B-Shares														
				C-Shares														
				12b-1 Fees as Percentage of Total Cost (Exclusive of Taxes)														
				A-Shares														
				B-Shares														
				C-Shares														
				Rep Pay, Based on Gross GDC														
				A-Shares														
				B-Shares														
				C-Shares														
Fund Data																		
Fund Number (1 to 4)				1														
Lord Abbett Affiliated																		
Investment, One Time				\$75,000														
Return, Pre-Expense				-8.00%														
Apply Load? (y/n)				y														
Apply Flip to B & C? (y/n)				y														
Use SEC C-Share Flip?				n														
Use Max (m) or Derived				m														
Apply CDSC? (y/n)				y														
Apply Max CDSC? (y/n)				y														
Gross (g) or Net (n) Pay				g														
Breakpoint Schedule: Class A																		
Low Limit				Hi Limit														
				Load														
				To Rep														
\$1				\$24,999											5.75%		5.00%	
\$25,000				\$49,999											5.75%		5.00%	
\$50,000				\$99,999											4.75%		4.00%	
\$100,000				\$249,999											3.95%		3.25%	
\$250,000				\$499,999											2.75%		2.25%	
\$500,000				\$749,999											1.95%		1.75%	
\$750,000				\$999,999											1.95%		1.75%	
\$1,000,000				*****											0.00%		1.00%	
Max Load				5.75%														
Derived Load, Pay (%)				4.75%											4.00%			
Derived Load, Pay (\$)				\$3,563											\$3,000			
Expense Ratios, Flips				% to Total														
A				0.88%											100.00%			
B				1.53%											100.00%			