

S7-15-10

In response to SEC's proposed Reform of 12b-1 mutual fund distributions:

To whom it may concern,

I have mixed feelings about the changes proposed to reform 12b-1 mutual fund fees. I believe strongly that improved transparency and disclosure is a good thing for all parties concerned. Reform should have the best interests of the client in mind, as I believe that when the client has more understanding and is more comfortable with his investments he will have a better and more trusting relationship with his advisor. However, I believe that some of the proposed changes, especially those regarding trail-based commissions end up working to the detriment of the client that they are supposed to benefit.

I think that clients will benefit from the reclassification of the 12b-1 fee into "marketing and service fees" and "ongoing sales charges." The client has every right to know and understand where their money is going. This added understanding of the fees outlined in the prospectus will ultimately lead to a greater level of trust between the financial professional and the client.

Unlike the addition of more clear and straightforward language detailing the 12b-1 fees, I do not believe that capping ongoing fees will ultimately benefit the client. Investment advice given at the account opening or initial investment, no matter how good, may not be the ideal allocations forever. Clients are in need of ongoing advice in constantly changing markets. A shares, with upfront dealer concessions and de minimis trails do not encourage ongoing customer support. They encourage financial professionals to be very proactive in getting new clients and additional money to invest. This is because most money that they make comes from new money invested. There is very little incentive for the financial professional to spend his time providing ongoing support to existing assets in this situation. His time doing this will produce very little additional economic gain and is probably not the most efficient use of his time. With C shares, the financial professional has incentive to provide ongoing support to the client. The clients gain is the financial professional's as well because he receives an ongoing percentage of the account value. When the commissions trail is capped, so too is the financial professional's incentive to actively provide advice for the invested assets.

I believe that if this proposal were to be enacted, it would end up working to the detriment of the lower net-worth clients. In my 20+ years in the financial services industry I have found that the people who receive the least amount of financial advice are the people who need it the most: These people generally do not have large additional sums of money to invest, as such

they do not qualify for breakpoints on A shares. If the client were to invest in A shares, the financial professional would have relatively less incentive to provide ongoing advice to this client versus a higher net worth client because the financial professional's chances of later receiving additional funds to invest and receive commission on these funds is substantially lower. As mentioned previously A shares incentivize the addition of new assets under management, not the growth of existing assets.

The goal of these proposed changes seem to be to encourage the use of a fee-based model, instead of trailing commissions. This is emphasized by the proposal of mandating that all funds establish a NAV share class. I believe that the use of the fee-based model will minimize the returns to the client as opposed to the use of trailing commissions. In the long term, appropriately invested money has led to an increase in value, whereas money held in cash has relatively decreased in value because of inflation. In fee-based accounts, cash has to be put aside or positions must be liquidated in order to cover the fees that are assessed, relatively decreasing the performance of the account as compared to having the money fully invested in an upward sloping market. For clients in non-qualified accounts, they are saddled with the extra burden of possibly being hit with capital gains and taxes when their positions are liquidated to pay for the account fees.

Differed load mutual funds, C shares in particular, offer other advantages as well. Throughout the lifetime of an account, changes in allocations and strategy may have to take place due to changes in the account holder's goals or changes in the market. When these changes occur, clients may need to get rid of one mutual fund in favor of another that better fits their new allocation goal. With all mutual fund share classes you can exchange shares of one fund for an equal value of same class shares in another fund of the same family. However, with front-end load share classes it is not cost efficient to the client to sell a mutual fund currently owned and to buy a different mutual fund in a different fund family within the short or medium term. This is to the disadvantage of the client as different fund families have different specialties or might be better at investing in different sectors. A PIMCO fund, for example, might be a good choice for a client investing in a bond fund. However, should his goals or the market change and it become more advantageous for his money to be invested in an equity fund, the PIMCO family might not be the place to find the best fund for the client. C shares prevent against excessive trading, in general, by imposing a 1% penalty should the funds be moved out of the family within a year, but after that period, they allow for the client to move his money to any fund that he and his investment advisor deem to be best without the excess fees associated with the medium term buying and selling of front-end load shares.

Reform that leads to more openness and straight forward language to the clients, in my opinion is for the best. However, I do not believe that getting rid of or capping trail-based commissions benefits the client. With the additional language added to the prospectus, breaking down what the 12b-1 fee is, the client is aware of the built in fee that they are paying to the advisor. This fee is to incentivize the advisor to provide ongoing advice to the client rather than

focusing solely on acquiring new business. Paying this trail through commissions instead of fee based accounts also is to the benefit of the client as they will not have to hold additional cash or be forced to sell holdings, possibly leading to unavoidable capital gains tax liability. Differed load mutual funds also have the added benefit of being able to switch between funds in different families without the excess fee burden that A shares present. It is because of this that I feel eliminating ongoing commissions based trails is to the detriment of the client, especially the lower net-worth clients who need the additional protections the most.

Sincerely,

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President
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