



# Allegheny Investments

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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,

I have been in the financial services industry for 43 years. I am nearing retirement and by the time the proposed rule is enacted I will be looking at the costs from an investors' perspective as compared to a broker or investment advisor's perspective. Approaching this from an investor's perspective, and based upon my years of industry experience my choice would be to compensate my broker/advisor by purchasing C shares. This plan would provide me with good service in the most cost effective manner available to me as a client.

I began my financial services career as a "captive" registered representative of an insurance company. I quickly realized that I could not provide best service to my friends and clients if I were compelled to emphasize proprietary offerings. To better serve my clients my partner and I started Allegheny Financial Group, LTD, a registered investment adviser in 1976, and incorporated Allegheny Investments, LTD, a FINRA registered broker dealer in 1977. Although Allegheny is now a dually registered investment adviser and broker dealer, financial planning has always been at the heart of our company. In 1977, I was one of the founders of the FPA in Pittsburgh. Unlike many firms, Allegheny has never had any account minimums. This has always enabled us to serve small clients.

Our firm prides itself on exceptional client service. In the past 30-some years our firm has experienced the peaks and valleys of the economy. Through the years we sought to discover how to provide our services in a manner most cost effective to our clients. For this reason, we became and continue to be fully committed to the use of "C" shares in the management of client funds. We utilize C shares in two different manners; either as a credit against an advisory fee, or as sole compensation for all of the services that we provide. We made this decision for several reasons.

The "level load" method of compensation allows us to rebalance and modify investments as financial and client circumstances dictate, without the added consideration of the client loss caused by the up-front commission charges of A shares.

C shares enable our clients to compensate us with pre-tax as opposed to post-tax dollars. The IRS Code only permits deduction of fees in excess of 2% of adjusted gross income. Given our fee structure it would be extraordinarily unusual for a client to be able to deduct any advisory fees.

I acknowledge that C shares may be abused, and may be regarded by some as a method to level out commissions as opposed to a method of compensation for client service. We do not regard C shares as our choice of payment, but rather as a service to our clients, which enables our clients to obtain professional services in the most cost effective manner available. I have several concerns surrounding the proposed new rule, particularly concerning abolishing or substantially modifying the "C" Shares:

Eliminating "C" Shares may encourage churning. When the proposed allocated sales charges expire advisors may seek to switch their clients into a different fund to obtain additional compensation and continue to be paid for the services that they provide. Instead of trade times being established based purely upon financial considerations this plan could encourage advisors to artificially structure trades to ensure compensation and rebalance in a way that protects the advisors' compensation rather than the clients' best interests.

If markets destabilize, as we have recently observed, clients invested in A shares may lose 5% of their investment in year one if they need to switch to a new fund family. C shares allow for such a switch without such a steep penalty. Up front commissions result in a client being "bound" to one fund family, which might work to the client's disadvantage.

In addition, if a client chooses to change firms, they will be disadvantaged because they will "lose" the compensation already paid, and the new firm may decide to "reallocate" the entire portfolio to receive payment for their services. The initial advisor could be unjustly enriched by payment for services not performed, for which the new advisor would need to be compensated in another manner. Advisors may be reluctant to take clients whose investments are in A shares, depriving clients of an opportunity to choose their advisor. While C shares encourage and reward continued client care, A shares encourage a "sell and run" mentality, where the advisor is continually searching for new clients instead of caring for current clients. C shares eliminate the conflict of interest inherent in other commission schemes, align the interests of the client and rep, and insure cost effective service.

The C share structure allows advisors to provide clients with services far beyond the ordinary "asset management" scheme. We have found that we generally serve as the "gatekeeper" for our clients' needed services. We insure that our clients make provision for their children's education, evaluate mortgages, plan for retirement, and maintain funds for a "rainy day". We insure that they have powers of attorney in place, plans for elder care, wills and when necessary, regretfully help administer and distribute their estates.

The current C share structure compensates brokers for monitoring the smaller accounts. The 25 bps fee suggested provides funds for few services, and allows a broker to do little more than deliver the requisite statements and notices. 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, audits,) and meet never ending compliance requirements. For the average account the amount left is minimal and clearly insufficient to comply with all that the regulations require. Contrast this amount with the fees charged by other service professionals in fields such as law and medicine. Financial planning is a bargain.

It appears that the main issue is not one inherent in the share classes themselves, but rather lies in the lack of investor knowledge and clear disclosures. There is always time to scrap the entire system and start over again. However, perhaps it would be prudent to first consider the less drastic remedy of concentrating on educating the investing public and ensuring that they are provided with sufficient information to make an informed decision. The SEC has already taken an important first step in this direction with the summary prospectus rule, presenting relevant information to investors in "plain English." Perhaps we could expand upon this initiative and require disclosures such as those contained in FINRA's mutual fund expense analyzer be provided to investors PRIOR to their investment, and thereafter on an annual basis which would explain the effect of the various share class strategies. The SEC, FINRA, NASAA and many states already devote considerable resources to client education. Perhaps the public would be better served by strengthening these initiatives instead of developing an entirely new system. Targeted educational efforts coupled with clearer disclosures might address these issues in a much more cost effective and efficient manner. Provide the education and information, and let the clients decide the value.

Sincerely,

A handwritten signature in black ink, appearing to read "James D. Hohman". The signature is fluid and cursive, with a large initial "J" and "H".

James D. Hohman  
President