As a long-time independent financial advisor who has made his living managing portfolios for retail investors for over 15 years, I feel I must comment on the ongoing proposals for amending the **12b-1 rule**. After reading your proposed changes, there is obviously a strong push to limit ongoing trail commissions. I am weary of the constant regulatory onslaught on my trail revenues. Basically, the argument FOR amending the rule amounts largely to the perceived misapplication of allowable “distribution & servicing” expenses that are instead being paid to advisors in the form of ongoing trail commissions. I am 100% FOR transparency. I think the ridiculous “12b-1” label is mostly the problem. **The name should be immediately changed to “Account Servicing Fee” so folks know what they are paying for.**

First, there are a few things the SEC simply MUST recognize.

1. There are many people not well equipped to handle investment decisions by themselves.
2. Even if they have the capacity to do it, many other people do not want to spend the time or energy managing their own investments.
3. Market conditions and investors’ situations constantly change. They get older, married, have children, divorced, die, etc.
4. **Nobody works for FREE**.

Back in the 1980’s, there was a clamor that many smaller investors were not well-served by paying a large upfront sales load to someone (only to never hear from them again), and Class “B” & “C” shares were utilized to address the problem. There was also a major push in the industry towards “fee-based” non-commission accounts. One of the main reasons I went independent was to avoid the constant pressure to SELL so I could take an ongoing advisory interest in my clients. A major problem with “A” shares is they encourage the “sales” mentality in the business, plus they lack flexibility. After a client pays the load, something (layoff, divorce or illness) beyond his or the advisor’s control can change. Reference the whole “market timing” mess from a few years back.

Whenever I first meet with a potential client, I explain to them that I don’t work for free, but can charge them on either a fee or commission basis. I will manage their portfolio for 1% annually. If they do not agree with that, they are free to look for another advisor. I feel strongly that this is a fair cost to the client. If their account grows, I make more; if it shrinks, I make less. Often their portfolios beat the market after all management expenses, with less overall risk. I am NOT trying to gouge anyone. If they want a fee-only account, since my back office charges me 30 basis points (they don’t work for free either), I then have to charge the customer 1.30% to make the same money. A very large percentage of my clients choose the “C share” option over the fee. Why? Because it’s less expensive for them… and they receive my advice on an ongoing basis.

My preference would be to ELIMINATE any mutual fund share classes except:

1. **True no-load (for the do-it-yourselfers),**
2. **Load-waived (for fee accounts), and**
3. **“C” shares, for those that do not meet account size minimums, or want to pay an ongoing commission versus a fee.**

This would help to get rid of the “fast buck” type salespeople from the profession, which would be a great start. I realize this would rile the sales departments of the large firms, but it would level the playing field - and investors would know exactly what they’re getting. This would also align the long-term interest of the advisor with the client for a reasonable cost, and strongly reduce the conflict-of-interest issues involved in managing portfolios.

Bottom line: If you eliminate compensation at some point in the future, you will only create a situation where either 1) the advisor must move the funds elsewhere; or 2) abandon the client. Neither is a desirable outcome.

Thanks for reading.

Craig Meylan