April 20, 2004

Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Mandatory Redemption Fees for Redeemable Fund Securities
(File No. S7-11-04)

Dear Mr. Katz:

Rydex Investments ("Rydex") respectfully submits the following comments in connection with Investment Company Act Release No. 26375A (the "Release") regarding the proposed adoption of a rule under the Investment Company Act of 1940 (the "Act") to require the imposition of a redemption fee on certain shareholder transactions.

The Proposed Rule

The Securities and Exchange Commission (the "Commission") has proposed Rule 22c-2 which would require most mutual funds to impose a fee of two percent of the proceeds from fund shares redeemed within five business days of their purchase. The proposed rule would also require each fund to require financial intermediaries to provide certain shareholder information to the fund for purposes of properly monitoring shareholder redemptions. The proposed rule would also permit a fund to waive the required redemption fee for redemptions of less than $2,500 and in certain cases of financial hardship. Finally, the rule would not apply to money market funds, funds with shares listed on a national securities exchange, and funds that have adopted a fundamental policy to affirmatively permit short-term trading, provided there is appropriate prospectus disclosure.

Rydex

Rydex is the investment manager for over 90 registered investment companies in the Rydex group of funds (the "Rydex Funds"). The Rydex Funds currently have aggregate assets in excess of $11 billion. The Rydex Funds are relatively unique in that, with two exceptions, all of the Rydex Funds permit short-term trading. Consequently, Rydex is particularly interested in, and our specific comments primarily relate to, the proposed carve out for funds that permit short-term trading.

Specific Comments

Should the proposed rule be adopted, we strongly support the proposed carve out for funds that affirmatively permit active trading. We believe that the carve out should apply to any fund that affirmatively discloses that it permits active trading, and provides disclosure explaining that such short-term trading may result in additional fund expenses. We do not, however, believe that the carve out should be conditioned upon a fund adopting a fundamental policy to permit short-term trading. As noted in the Release, a fundamental policy is one that can only be changed with shareholder approval. We believe that requiring adoption of a fundamental policy, that can only be changed with shareholder consent, is inconsistent with the goals of the proposed rule. If the goal is to protect shareholders from the dilution and expense resulting from short-term trading, a fund board should be able to take steps to implement appropriate trading policies quickly, whenever the board determines that such policies are necessary, without the need of going the shareholders. Although we are not advocating it, we believe it would more consistent with the Commission's stated goals, if the Commission required those funds that do <u>not</u> permit short-term trading to adopt a fundamental policy to that affect.

As the manager of the Rydex S&P Equal Weight ETF, we also support the carve out for funds that have shares traded on a national securities exchange. We also recommend that this carve out be extended to funds that have shares traded on Nasdaq. We are not aware of any policy reason why it would make a difference whether shares were traded on Nasdaq or on a national securities exchange, and suspect that the failure to include funds with shares traded on Nasdaq was an unintentional oversight.

General Comments

One of the many unfortunate consequences of the current mutual fund scandal is that the active trading of mutual fund shares has become synonymous with international arbitrage and, as a result, is viewed by many as an immoral, if not illegal, activity. Rydex, however, has always recognized that active strategic and tactical asset allocation are valid, and legal, investment strategies. Thus, the Rydex Funds were specifically designed for those active investors. Nonetheless, Rydex also recognizes that not all mutual funds are designed to accommodate active investors. Consequently, Rydex supports the right of a fund's board of trustees, acting pursuant to its fiduciary duty to all fund shareholders, to adopt trading policies and impose redemption fees. We do not, however, generally support applying a two percent redemption fee or five-day holding period across the entire industry. Rather, we believe that each fund should adopt policies and, to the extent necessary, redemption fees, based on the individual circumstances of the fund.

We understand that the Commission's goals are to reduce or eliminate international arbitrage, to require active investors to bear the cost of their active trading, and to protect long term investors from dilution. We do not believe the specifics of the proposed rule will achieve those goals in any meaningful way. We do not believe that a two percent redemption fee will significantly reduce international arbitrage. International arbitrage can only be properly dealt with by requiring funds to fair value their securities. Absent fair valuation, arbitrageurs will simply take the redemption fee into account when calculating their expected profit. We also do not believe that a five-day holding period will significantly reduce active trading. Absent some additional "market timing" policy, active investors would still be able to trade on an almost weekly basis, the costs of which would be born by all shareholders, both long-term and short-term. Finally, we are not convinced that two percent of redemption proceeds represents the actual costs incurred by the fund and its shareholders as a result of redemptions within five days from purchase. Absent specific data, it is impossible to know whether two percent is more or less than the resulting cost to the fund, but we suspect that, absent arbitrage situations, it is likely more than the actual cost to the fund.

Consequently, we believe the proposed rule (1) will not significantly reduce international arbitrage, (2) will not result in active investors bearing the costs to the fund of active investing, and (3) will result in a windfall for long-term shareholders at the expense of those shareholders who do redeem within five days of purchase. Finally, we believe that requiring funds to obtain additional shareholder information will result in duplicate recordkeeping, with records now being kept at the financial intermediary also having to be kept at the fund's transfer agent or adviser, resulting in increased fund expenses.

Conclusion

In summary, we do not support and are generally concerned about the imposition of a "one size fits all" mandatory redemption fee across the mutual fund industry. We believe that in an industry as broad and diverse as the mutual fund industry, it is the individual boards of trustees that are in the best position to determine whether a redemption fee is appropriate for a particular fund. That said, we strongly support the proposed carve out for funds that affirmatively permit short-term trading. However, we do not believe that it is necessary or prudent to require those funds to adopt fundamental policies to that affect.

We hope the foregoing is helpful to the Commission in its deliberations, and would be happy to provide additional information to assist the Commission in its consideration of these matters. In addition, if you have any questions, please contact me at (301) 296-5149 or Nick Bonos at (301) 296-5125.

Sincerely,

Carl G. Verboncoeur
Chief Executive Officer

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