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3/25/04

Mr. Jonathan G. Katz, Secretary
U.S. Securities & Exchange Commission
450 Fifth St., N.W.
Washington, DC 02549-0609

S7-06-04

Dear Mr. Katz,

I appreciate the opportunity to comment on the SEC's proposed mutual fund rules changes and applaud the steps being taken to reduce exploitive practices by brokers and investment companies in the sale of mutual funds. Such changes are long overdue.

At the outset, I think it important to recognize that there are two core underlying problems. One is that individuals who buy load funds tend to be inexperienced and unknowledgeable investors who rely on and trust "professional" brokers and financial advisors. Unethical brokers exploit trusting customers who are unaware of, confused by, and/or do not understand the complex alternatives available to them. While it is important that delivery of a prospectus prior to sale be required, the reality is that many load fund purchasers are unable to effectively read a prospectus. Many prospectuses are constructed so as to be formidable; intentionally difficult to read and comprehend, written in oblique terms and organized so that some of the most critical information is buried. Many customers have neither the competence nor the inclination to drudge through an obfuscating prospectus.

The second core issue is that mutual fund commission schedules are structured so as to provide strong incentives for brokers to avoid discounts and sell disadvantageous products. "Caveat Emptor" is the brokerage industry's overt policy. The combination of strong incentives for exploitation of unknowledgeable customers who are unable to protect themselves invites disaster. I encourage the SEC to pursue opportunities to require the industry to eliminate commission schedule incentives for abuse.

For example, while B shares may not be significantly more costly to customers who make small investments, there are virtually no situations in which B shares are actually more advantageous to the customer than A shares. Class B shares were created so that brokers could deceivingly market them as "no-load" mutual funds. In my opinion, B shares should be banned. Lacking that, the broker should be required to always:

a) fully explain and quantify an A share purchase alternative when recommending any other class, and

b) investigate and fully disclose any potential for discounted Class A purchases considering the customer's investment plans and current holdings.

It is suggested that you consider requiring the customer and broker to sign a form certifying that a Class A purchase alternative was fully described by the broker and understood by the customer prior to accepting an order for any other class. A certification should also be signed by both parties to the effect that possibilities for discount were also reviewed with and explained to the customer and that none beyond those provided in the sale were potentially available.

Class C purchases are appropriate only for short-term investments and should be permitted only when that is clearly the customer's intent. Another useful certification might be that the customer understands that caveat and intends a limited holding period.

I suggest for your consideration a ruling that brokers be prohibited from selling a class of mutual fund that is clearly and quantifiably disadvantageous to the customer's situation. Appropriately severe penalties and customer retribution should be automatic upon proof. For example, most investment companies state policy that Class B orders in excess of $250,000 will automatically be converted to Class A purchases. Many companies adopt a much lower limit. But the policies are not vigorously administered. Same year orders that aggregate to more than the limit amount are readily accepted.

I believe that the new forms proposed by the SEC are desirable. Since they can be readily computer automated based on limited input data, they should not be a significant administrative burden to the broker. Specific suggestions follow.

a) Section D of the Confirmation form and the "Special compensation for our personnel - potential conflict of interest" section of the Point of Sale form pose complex questions that many customers would not understand. Why not simply ask, "Are brokers paid more for selling this fund, funds from this investment company or this specific class of shares than they would be would for selling other funds or other classes of shares?". Eliminate the two complex questions regarding proprietary securities (which most investors don't understand) and the back-end load commission premiums. Also eliminate "NA" responses. The customer needs to know whenever the particular purchase being recommended is more advantageous to the broker, and why that does not imply disadvantage to him.

b) On the Point of Sale form.

1) Add a column to the "Sales Load" section that requires a comparison with a Class A investment alternative if B or C shares are recommended.

2) Add a section regarding alternative opportunities.

"Considering this customer's (and his family's) particular situation, current holdings and investment plans:

a) Is there any opportunity for superior discounted costs among comparable mutual funds and investment companies sold by this brokerage firm? *Yes.* *No.*
b) Is there an alternative class of investment that would be more advantageous to the customer? *Yes.* *No.*

(Note: The broker is required to responsibly review alternatives that are potentially more advantageous for the customer and fully disclose them to him.)"

Steps also need to be taken to assure that NASD be required to enforce the rules. Arbitration and complaint response is notoriously biased against the customer. They will go to almost any length to avoid a finding that penalizes the broker or mutual fund company and provides fair compensation to the customer for exploitive treatment.

Attached, for example, is a worksheet summarizing an actual case recently submitted to NASD arbitration. The transactions clearly demonstrate blatant exploitation to maximize broker commission. The customer was a recently widowed and financially inexperienced investor who sought advice on complex trust implementation of her estate. The "estate planner" was also a broker. All transactions recommended and implemented by the broker are listed in chronological sequence with sales of existing assets on the left and purchases on the right. The first action involved concurrent investment of $1.2 million in B shares when the same amounts would qualify for 0 sales charge in discounted Class A investments. Subsequent investments were fragmented among investment companies and classes to avoid discount. Discounts for aggregate purchases in the same companies were not provided. A large sale of high-cost, entirely unsuitable variable annuities was made including the sale and reinvestment of a low-cost existing holding.. Every single dollar of sound no-load investments that her husband had made was sold and duplicated in load funds. Enormous capital gains tax liabilities were incurred by the customer in inappropriate and untimely sale of highly appreciated securities to fund commissionable reinvestments. Etc. Although the arbitrators did not expunge the complaint from the broker's record, they made no award to the customer.

Thank you for the opportunity to consider your proposals and make suggestions.

Sincerely,

A... .is of Financial Assets Held on 1/25/97 DOD and Subsequently Reinvested 9/23/2001 McC Fam Tr Buy_Sell.XLS ...ibit B H

Assets Sold	Assets Held on DOD Shares	Assets Held on DOD Value	Assets Sold Date	Assets Sold Proceeds	Purchase	Class	Reinvestment Date	Reinvestment Amount
					B Trust			
					First Investors MD Ins TX Free B	B	4/21/97	200,000
					Oppenheimer Strategic Income B *	B	4/21/97	200,000
					Seligman High Yield Bond Series CL	B	4/21/97	200,000
					A Trust			
					Allianz VA Contract DA705258		4/21/97	217,548
Pitney Bowes	13,812	760,530	3/20/97	817,548	sub-total			817,548
Pitney Bowes	6,906.000	380,265	5/9/97	456,278				
Belden common	175.000	6,632	5/7/97	5,898				
JP Morgan common	110.000	9,896	5/7/97	11,476				
Perkins Family Restaurants LP common	500.000	6,875	5/7/97	6,464				
MD State bond, 4.375%, 8/1/2000	250.000	24,626	5/6/97	23,537				
MD State Health & Higher Ed bond, 5.375%,7/1/13	150.000	14,642	5/9/97	14,522				
Pepsico bond, 7.15%, 10/25/11	100.000	9,646	5/14/97	9,638				
Fidelity Spartan Ltd. Maturity bond fund	2,043.293	19,773	5/7/97	20,080	C Trust			
Fidelity Growth & Income fund	406.546	12,781	5/7/97	13,548	Oppenheimer Quest Opp'tunity Valu	B	5/30/97	200,000
Lindner Growth fund	794.522	20,020	4/23/97	23,049	Phoenix-Goodwin High Yield Fund-B	B	5/30/97	100,000
Lindner Dividend fund	562.946	15,733	4/23/97	15,154	Seligman Large Cap Value	B	5/30/97	200,000
T. Rowe Price Global Govt. fund	1,099.955	11,135	5/2/97	11,030				
T. Rowe Price MD Bond fund	5,394.674	55,366	5/2/97	56,294	A Trust			
T. Rowe Price US Treasury Intermediate fund	2,063.039	10,598	5/2/97	11,114	Allianz Variable Annuity DA705258		5/30/97	200,000
T. Rowe Price ST US Govt fund	4,363.048	20,188	5/2/97	20,570				
T. Rowe Price GNMA fund	1,104.100	10,265	5/2/97	10,497	Seligman Henderson Global Tech	A	7/7&11/6	73,049
Annapolis Bank & Trust A/C 5009997 CD		131,378	6/6/97	134,673	Seligman Henderson Emerg Mkts G	A	7/7/97	50,000
		759,819		843,822				823,049
					Franklin Templeton Mutual Disc	C	1/2/98	50,000
					Franklin Templeton Mutual Beacon	C	1/2/98	50,000
					Franklin Templeton Mutual Europe	A	1/2/98	40,433
					Phx-Goodwin Emerg Mkts Bond	A	1/2/98	100,000
					Phoenix Value 25	A	1/5/98	50,000
					Phoenix-Engemann Nifty Fifty	A	1/5/98	50,000
					Phoenix Aberdeen WW Opportunitie	A	1/5/98	50,000
					Alliance Global Dollar	A	1/5/98	100,000
					Alliance Global Strategic Income	A	1/5/98	100,000
Pitney Bowes	6,906.000	380,265	12/3/97	590,433				590,433
Fidelity Variable Annuity contract #FC018489 .8% exp								
806.590 units High Income		20,294						
841.738 units Equity Income		26,596						
845.062 units Contrafund		14,389						
Sub-total		61,279	11/21/97	71,258	Allianz Variable Annuity DA714661		11/21/97	71,258
					1.5% exp			
Total Financial Investments		1,961,893		2,323,062				2,302,288