Proposed rule 15c2-2

I have been an investment advisor since 1976. Over the last 29 years, I have seen the market place change products as well as regulations.

I have read the proposed rule and even though the rule is with good intent in protecting the public from unscrupulous advisor, I believe that it will have no effect in the real world.

Higher cost to for the advisor to do business

The proposed rule while disclosing cost to clients will increase the broker/dealers cost in distribution of these shares. The choice will be the advisor who will determine if he/she will want to work with a client on commission or charge the client a fee for service. The advisor will limit the distribution of some funds while using no commission funds with low expense ratios. This might not be the best choice for clients.

Client Advisor's relationship

From reviewing the regulation it is my conclusion that regulators have never been in front of a client discussing their needs, goals and aspirations. In the years I have been in business, since 1976, I have never had a compliant except that the client has too much disclosure. The clients receive too much in the mail, prospectus pamphlets, flyers etc. In my many years clients very seldom read it and frequently don't even open the mail. When the client comes to my office they rarely understand what it is I am presenting and what is important and more often confused. The relationship, trust and how I make them feel is their primary concern. The clients want and expect my advice and they give me the task of making most of their decision. In their view this is why I get paid for my services.

Product Choices

When I started in the seventies there were between five hundred to six hundred funds. The Dow stayed under a 1000 until 1982. Mutual funds were sold and not bought. The front-end load was eight and half percent with no trails. Today there are more choices than ever; thousands of open-ended mutual funds, ETF, Alternative investment such as futures on indexes like the Dow, S&P, and Russell and even futures on individual stocks though the Chicago One. Clients need more counseling than ever before. The average advisor deals with many more issues that he/she did in the seventies and the service should be priced accordingly. It is wrong in my view to compare two mutual funds expenses ratios for example and tell if one is better than the other due to the lower cost. This is what you are asking a client to do. To do an honest comparison one would need to quantify the services, expertise of the adviser. That judgment can only me made by the client and the advisor.

New Entrants into the field

When I started out in the business very little capital was needed and all one had to do is pass a test. Today to start out one would need massive capital, client base, expertise in many fields i.e. running a small business, products, technically, compliance, regulation, psychology to name a few.

The barrier to entry to this business is Huge. In the near future there will be a shortage of good advisers for the aging baby boomers. The regulation in my view seems to be running in arrears and not with the times. If products aren't good for the clients, fees are too high etc. Let market forces determine the fees and expenses of products. Many advisors today are fee based and are not products salespeople. Our clients are our "bread and butter" It is our duty in doing a good job and be competitive otherwise we wouldn't be in business. If management fees and or expense ratios on funds are the issue then go to the product sponsors and tell them what pricing should be on the products. If the pricing is not enough for the advisor he/she will not sell it, which will eliminate many products from the shelf. In the eighties no load funds were being aggressively advertised because the markets were increasing, unlike the seventies. The B/D community responded by providing no load funds in wrap accounts on a discretionary basis

The financial advisor held to a higher standard

Early this morning I turned the television on and found myself watching the Suzie Orman Show on CNBC. A young caller called in and asked about diversifying her $3,000 IRA and what Suzie thought. Suzie explained that to diversify meant that you should put money in different investments and not just one stock. Suzie preceeded to recommend that this caller put money into a Vanguard Wiltshire 5000 fund stressing the fact that you don't want to buy a fund that has A or B attached to the name because of the load and cost associate with that type of fund. Suzie didn't give this caller any additional disclosure, as we as advisors would provide. Suzie didn't tell her how to buy the fund where to find the fund information etc. There might be other issues that the caller has been dealing with. When you put all this together it might be better to pay a load in exchange for more comprehensive on-going advise.

The station pays Suzie Orman. The only way an advisor gets paid is from the client by a management fee or commission. If this person loses money is Suzie Orman liable? As advisory we can be held accountable and that is why we have E&O insurance. Where does the caller go when they have a question, call the station and ask for Suzie? Will Suzie come to the caller home and explain the fund and provide on going service? Will Vanguard be there when the investors needs information on other issues that relate to them and their finances? One of my clients recently called me after talking with vanguard and told me I should have called you first. Vanguard only confused me and my questions weren't answered.

Conclusion

In conclusion, what we do as advisors is very important, complex and comprehensive and cannot be quantified in a prospectus under cost or expense ratios. The client will have to make their judgments on the value of that particular advisor service and performance as it relates to their individual situation. The advisor will also have to determine if he/she would want to work with the client and if the client is profitable.

There are many competing products and the client hires our firm to give them advice. We utilize mutual funds, exchange traded funds (ETF) individual equities, fixed income etc. Other products have been introduce such as alternative investments, hedge funds, managed futures. The last few years' individual mutual fund sales have been a smaller and smaller part of our business. We are also beginning to expand the use of futures to protect our clients in declining markets and enhance returns in rising markets. Electronic future mini contract ("e-mini's" on the S&P NASDAQ, EURO, Russell. Etc) are all alternative to higher cost mutual funds.

In the absence of value then price is an issue. It is the job of the advise to give the client good value. As an advisor we review the cost to see if the costs are reasonable and suitable with the service the client is expecting and receiving.

The market place is confusing to the average investor. They just want to have confidence and trust in someone that understands them and who puts them first.

My clients don't seem to want or need more disclosure. They just want someone to be there for them and who cares about them.

Sincerely,

Dana Morton