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INVESTMENT ADVISERS, INC.

JULIE JASON, PRESIDENT
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May 26, 2008

Nancy M. Morris, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington D.C. 20549-1090

RE: Amendments to Form ADV
File No. S7-10-00

Dear Secretary Morris:

This letter is in response to the Commission's request for comment[1] on its proposal to convert form ADV Part 2 to a publicly available narrative incorporating additional disclosure items.

We are registered investment advisers who, like the overwhelming majority (82 percent) of SEC registered advisers, are small firms with 10 or fewer employees[2]. After considering how our firm would comply with the proposals taken as a whole, we believe they will compel advisers to create comprehensive disclosure that is prospectus-like in nature and appearance, thus defeating the objective of achieving "clear, current, and more meaningful disclosure."

Further, we believe that public dissemination of the proposed document serves no public or regulatory interest and as some commentators have mentioned, may in fact inhibit rather than promote competition. For that reason, we strongly oppose requiring dissemination to anyone

[1]Amendments to Form ADV—File No. S7-10-00; SEC Release No. IA-2711; 34-57419; File No. S7-10-00 Dated March 3, 2008
[2] Of the 10,817 advisers registered with the Commission as of September 30, 2007, 8,835 have 10 or fewer employees. Only 1,952 advisers have 11 to 999 employees (medium size advisers) and only 30 advisers have 1,000 or more employees (large advisers).

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other than regulators, the adviser's clients, and those potential clients with whom the adviser wishes to do business.

Finally, we believe that preparing such a document will place an undue burden on the small adviser that far exceeds the Commission's burden estimate of 5 hours. Instead, we believe the Commission's goals can be better achieved by maintaining the current ADV Part 2 format while providing guidelines to be used in preparing Schedule F.

Current Form ADV Part 2

While the current form ADV Part 2 is in a check-the-box format, advisers attach narrative explanations on Schedule F, which is at the end of the form. This method of disclosure gives the adviser the opportunity to expand on and explain disclosure items, using language that is clear and understandable (or complicated legalese), depending on the writer's ability (or lack of it). The format is uniform; prospective clients who wish to compare one adviser to another can easily do so; likewise, regulators who use the form to register an adviser can easily find and review needed information.

An adviser is motivated in providing appropriate disclosure to clients and prospective clients for three reasons, only one of which is meeting ADV Part 2 form requirements[3]. The second reason is to address fiduciary[4] standards that guide how the adviser conducts his business, particularly to make certain that potential conflicts of interest are clearly disclosed. Third, the adviser needs to tell his story so that readers can understand the services being offered and see how they might differ from other advisers.

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[3] As the Commission has made clear, complying with ADV Part 2 does not necessarily satisfy the adviser's disclosure requirements under the law.

[4] All registered investment advisers, irrespective of size (and irrespective of what is required to be disclosed in form ADV Part 2), are held to a fiduciary standard under the law: Under that standard, an adviser has an affirmative obligation of utmost good faith and full and fair disclosure of all material facts to its clients, as well as a duty to avoid misleading them.

For these reasons, some advisers, such as our firm, choose to provide clients with a narrative brochure that incorporates and expands on the disclosure items of current ADV Part 2, in lieu of the check-the-box form. This practice is permitted by current law. In such cases, the adviser chooses the order of the information, while making certain that all ADV Part 2 items are covered. Our brochure is printed on a single 11”x17” sheet which folds over to a four-page brochure that is easily reproduced and distributed.

We mail our narrative ADV Part 2 to every client each year as a matter of course, even though we are only required to provide ADV Part 2’s to clients upon request. We have no reason to widely distribute the document or make it publicly available online because we limit the number and type of clients we wish to serve.

We believe the current approach is highly satisfactory in providing appropriate ADV Part 2 disclosure.

Rationale for Proposed Changes

In its 2008 proposal, the Commission stated it was convinced that “we need a better approach to client disclosure,” citing the following rationale[5]:

> “First, the format of Part 2 does not lend itself to ***meaningful, clear disclosure***. In some cases, an adviser's response to a question may be accurate but ***paint an inaccurate picture of its practices***. For example, an adviser may truthfully respond to current Item 4.C. by indicating it uses all of the strategies listed by the item, but ***a client may not appreciate that the adviser's principal strategy involves***, for example, risky options trading. In other cases, clients must draw inferences from an adviser having checked a box. For example, if an adviser is paid through Commissions on securities that it advises clients to purchase or sell, a checked box in current Item 1.C. will disclose this practice, but not ***the conflict of interest*** the adviser has as a result. Advisers can use Part 2's narrative schedules to expand on a check-the-box answer, but the schedules are physically separate from the checked box and are often ***written in legalese or technical jargon***.

[5] See, the year-2000 release proposing ADV Part 2 amendments.

> Second, because the information in Part 2 concerns the advisory *firm,* clients may not receive information they want and need about the firm's employees with whom they have contact and on whom they rely for investment advice. ***In the case of smaller firms, the current disclosure requirements*, *which focus on the senior executives of the advisory firm, may be adequate.*** But in a growing number of large advisory firms, clients may never meet the firm's senior executives, who may be located in a different city and may have only an indirect effect on the advice given to the client. We believe clients of these firms may be more interested in the background and qualifications of the individuals with whom they are dealing than in the background and qualifications of executive officers." (Emphasis added.)

We believe the Commission can achieve the goals of paragraph (1) above by providing guidelines for responding to current Schedule F instead of making wholesale changes to form ADV Part 2. As to paragraph (2), we believe that current ADV Part 2 requirements for smaller firms are indeed "adequate."

Specific Comments

As to specific items, we have the following views:

Item 2: We believe it is unnecessary to summarize material changes in the narrative. It is less burdensome to summarize material changes in a side letter versus a brochure.

Item 3: We believe that the adviser should choose how to organize the brochure, based on his business, and to decide on the table of contents.

Item 8: This item raises interpretive issues.

For example, if an adviser "primarily" recommended stocks, Item 8C would require an adviser to explain the "specific risks" of stocks. Stocks could "involve significant or unusual risks," which would have to be discussed in "detail." For example, a client may have a concentrated employer-stock portfolio, which would seemingly call for detailed additional disclosure.

In its 2008 release, the Commission states: "Advisers that offer a wide variety of advisory services could simply explain that investing in securities involves a risk of loss." If an adviser

provides one advisory service – for example, serving as investment counsel – will the adviser need to describe in detail the risks inherent in all of the instruments used to construct a portfolio, namely, stocks, bonds, options, unit trusts, mutual funds, ETFs, and other financial instruments? What about methods of analysis and strategy? What is "primarily" intended to encompass?

As to cash positions (Item 8D), to be effective, advisers need to be flexible and nimble in how and when to increase and decrease cash positions. To require any Item 8 disclosure on cash positions would place unnecessary constraints on advisers.

In the practical world, any time a narrative is used to describe how the adviser performs its functions, the narrative must be written in such a way to provide the flexibility needed for the adviser to react appropriately to market forces – that's why we see language that the Commission calls "legalese" in prospectuses, something the Commission wishes to avoid in ADV Part 2.

Without that flexibility, an adviser would need to double check his Item 8 disclosure before acting on changing market conditions, and make an on-the-spot interpretation of whether disclosure permitted him to act as he deemed fit, perhaps engaging counsel in the determination. If he found that his disclosure limited him, then he would be constrained from acting until he revised the language of the ADV with the help of counsel, and printed and distributed a revised ADV Part 2 – a highly unsatisfactory state of affairs, none of which is called for in the circumstances.

On the other hand, if the disclosure is indeed flexible enough to cover all practical situations the adviser may encounter, what purpose does it serve? What does the Commission gain? What does a lay reader gain?

Item 9: We believe item 9 is unnecessary because disciplinary disclosure is currently required by rule 206(4)-4. Under that rule, advisers can make disciplinary disclosure to clients either

orally or in writing. “Because of the importance of this information,” we believe a communication of disciplinary disclosure directly to the client is much more meaningful.

If the item remains, we believe the 10 year disclosure language needs to be clarified. That is, an event occurring more than 10 years ago does not require disclosure, yet, item 9 cautions advisers, “even if more than ten years have passed since the date of the event, you must disclose the event if it is so serious that it remains currently material to a *client’s* or prospective *client’s* evaluation.” We suggest the insertion of the following phase, “such as embezzlement or theft,” after the word, “evaluation.” In addition, we do not agree with a commentator who sees adviser disclosure as comparable to registered representative disclosure.

Definitions: The definition of “wrap fee program” could be read to include supervisory accounts, which we do not believe is the Commission’s intention.

Firms will need more guidance on “supervised persons,” and when the supervised person is an “investment adviser representative.” The definitions should be narrowed to exclude individuals who assist in those functions, but are not responsible for them. Also, does the Commission intend that a “management person” be included under the definition of investment adviser representative and supervised person?

Burden

The Commission assessed the burden for the small adviser to prepare its first narrative disclosure compliant with the new proposed ADV Part 2 to be 5 hours. While it is no doubt true that “[m]any of the new items imposing the most rigorous disclosure requirements may not apply to certain small advisers because, for example, those advisers may not have soft dollar or directed brokerage arrangements, or may not have custody of client assets,” small firms will need

to digest, review, and apply the new rules after comparing them to existing disclosure requirements, and outside counsel[6] will need to be retained to draft the new disclosure document.

This will require reviewing the Commission's adopting release, which can be expected to be more than 100 pages in length (the 2008 proposing release is 161 pages in length), as well as "The Plan English Handbook," an 82 page document the Commission suggests advisers use in drafting the brochure and supplement.[7] Notably, the Handbook was created for use in preparing prospectus disclosure.

Then, there is the practical issue to consider of how this document is to be assembled, printed, and disseminated. Advisers will have to determine an acceptable format (a booklet?) to print a document that will certainly be considerably longer than four pages for even the smallest of advisers, four pages being the maximum that can be printed on a fold-over brochure (11x17). The proposed form ADV Part 2 itself is 9 pages in length, excluding instructions, and the proposed supplement is another 4 pages, also excluding instructions. We estimate that even a small firm will need to publish a booklet of 10 pages or longer to meet these ADV Part 2 requirements.

Taking these factors into consideration, we believe a reasonable (and possibly low) estimate for a small firm would be 40 to 60 hours for the initial narrative and another 20 to 40 hours a year thereafter, depending on the nature of the adviser's business. We expect legal fees to be meaningful. Contrary to the Commission's believe, small firms will not be able to delegate the updating function to a compliance clerk.

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[6] Firm with 10 or fewer employees do not normally have staff legal counsel.
[7] The 2008 proposed ADV Part 2 instructions refer advisers to the Plan English Handbook published by the SEC's Office of Investor Education and Advocacy available at www.sec.gov/news/extra/handbook.htm.

Burden is not limited to time and money. There are two additional factors to consider.

First, the adviser's attempt at complying with the proposed narrative will not necessarily satisfy its statutory disclosure requirements; while ADV Part 2 must be delivered to clients and prospective clients, doing so does not provide advisers with a safe harbor for disclosure required under the Investment Advisers Act.

Second, ADV Part 2 is not a public (nor private) offering document; that is, the adviser is not making a public (nor private) offering of its shares to potential investors that would call for the proposed type of narrative. Readers are not potential "investors" in the adviser's business.

Conclusion

For all of the stated reasons, we do not believe the proposed move from the current arrangement is necessary or appropriate in the public interest[8]. We do not believe the mandated narrative will "improve the ability of clients and prospective clients to evaluate firms offering advisory services and the firms' personnel, and to understand relevant conflicts of interest that the firms and their personnel face and their potential effect on the firms' services."

In fact, we believe a narrative in the form proposed will likely raise interpretive issues and increase the potential for confusion. As the SEC-commissioned Rand Corporation's Study issued at the end of 2007 concluded, investors have difficulty discerning the differences between advisers. A narrative such as proposed will likely make it more difficult for the reader to understand the nuances that make one adviser's business practices different from another's.

Therefore, we do not believe the proposal will have the desired goal of achieving a "more informed investing public" which "will create a more efficient marketplace and strengthen

[8] Section 202(c) of the Advisers Act provides: "Whenever pursuant to this title the Commission is engaged in rulemaking and is required to consider or determine whether an action is necessary or appropriate in the public interest, the Commission shall also consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation."

competition among advisers." In sum, we do believe that the proposal, if adopted, would not promote efficiency, competition, and capital formation and in fact, would have the opposite effect. In fact, we believe the proposed narrative ADV Part 2 is a solution looking for a problem.

In considering the Commission's proposed amendments to Part 2 in their entirety, we believe the existing ADV Part 2 format is adequate and gives the adviser sufficient flexibility to permit appropriate disclosure. Conventional wisdom dictates: "If it ain't broke, don't fix it."

When all is said and done, we believe the Commission's goals of achieving "clear, current, and more meaningful disclosure," would be far better achieved by providing advisers a guide to follow when drafting Schedule F disclosure or when drafting a narrative brochure that they choose to write should they wish to do so.

Respectfully Submitted

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