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

Re: File No. S7-11-04

Dear Mr. Katz:

I am writing to comment on the Securities and Exchange Commission's ("SEC") proposal to impose a 2% redemption fee on the sale/liquidation of mutual fund shares held less than 5 days. I feel very strongly that this measure causes more harm that good to investors and lines the pockets of mutual fund companies, the very entities that violated their fiduciary responsibilities to their shareholders.

The intention of this proposal is to eliminate the overnight arbitrage trade on international mutual funds, which is not illegal to begin with, although a violation by mutual fund employees and associated persons of their fiduciary duties to shareholders. The international arbitrage trade is what led to the "market timing" issue, which is a mischaracterization of market timing/active trading/technical trading or other similar terminology. From an image standpoint, this has hurt perfectly legitimate trading strategies, which help to reduce risk and minimize losses to investment portfolios. Certain mutual fund companies have successfully dealt with the international arbitrage trade, most notably Fidelity, through the use of "Fair Value Pricing." It is my understanding that the SEC has a standing recommendation of the use of fair value pricing by mutual fund companies, but didn't enforce this.

I'm not aware of any study that there is an industry wide problem of abusive mutual fund trading that passes higher costs onto buy and hold (passive/strategic asset allocation) investors. The securities that mutual funds hold and trade are very liquid and represent just a portion of all securities traded by United Sates and foreign institutional and non-institutional investors. Moreover, with the rising liquidity of Electronically Traded Funds ("ETFs") and the fact that mutual funds can hold a larger percentage of ETFs in their portfolios that track their underlying benchmark. The mutual funds have an additional source of liquidity to handle larger inflows/outflows.

Imposing a 2% redemption fee is virtually equivalent to imposing a tax on mutual fund investors. This will also cause investors to avoid mutual funds and put their long-term savings in the bank, which will be detrimental to their financial health. The SEC's proposal has already resulted in mutual fund companies imposing redemption fees for periods far in excess of 5 days. This simply shows how mutual fund companies fleece their shareholders. They do this in order to keep the funds under their management to earn fees and causing people to refrain from withdrawing their funds for any reason. Moreover, fund companies earn additional management fees on the redemption fees they extract from shareholders, again lining their pockets! Mutual fund companies should be prevented from imposing redemption fees as mutual funds were meant to be liquid. Liquid means being able to liquidate your investment without cost in a short period of time. This behavior is like a currency exchange, which takes advantage of lower income people cashing payroll checks! Fair value pricing takes care of this. Also, the actual cost of a mutual fund manager to liquidate individual securities in negligible, especially in highly liquid stocks and bonds. Based on research I've read and discussions with mutual fund managers, the cost is less that 2 tenths of one percent, tops! Again, using ETFs would enhance their liquidity and most likely improve their performance since few managers beat their underlying index!

The SEC has for over 30 years helped to lower the cost of investing for the common investor and imposing a redemption fee would simply represent a reversal of the SEC's philosophy. It seems that the SEC is simply reacting to the whims of politicians and short term pressure. Unfortunately, politicians are quite ignorant on the workings of the capital markets and can do quite a bit of damage by pressuring regulatory bodies to pass rules which actually do more damage that doing nothing or spending time to analyze everything to make the best changes. It is very obvious that the average investor is not at all concerned about what is going on. They believe that the market itself without undue political pressure will make the necessary changes to make things better. The markets have to do this to compete and survive!

In summary, the mutual funds have the means and the tools to handle abusive trading in thier funds, especially the overnight international arbitrage trade. The SEC should prevent mutual funds from imposing their own abusive and confiscatory redemption fees from shareholders. There are better issues to deal with to help shareholders such as the ridiculously high commissions funds pay per share to trade a stock.

Thanks you for the opportunity to comment on this rule proposal. I would be more than happy to answer any questions the SEC staff would have or to provide any assistance that is necessary.

Sincerely,

Kevin P. Holland, President
CPA/PFS, CFP, AAMS, CMFC, MBA