May 3, 2005

I am sending this e-mail in response to the special measures that the SEC is looking to implement to minimize the impact of redemption fees on long-term investors.

When first learning of the impact short-term redemption fees could have on participants of 401(k) plans I became very concerned about fees that would apply to the "normal" 401(k) plan participant. People are not encouraged to become "day traders" within their 401(k) account. In fact, most people have 401(k) accounts for the right reasons, as a long-term investor. These people should not be penalized. However, the way the short-term redemption fee rules have been set-up these people could be penalized. Here is an example: When a person's employer transmits money to the individual's account (the account holder has no control over what date the money is actually transmitted), that transaction would count as one transaction, then the person goes into their account and submits a trade within 5 days of the previous transaction, the second transaction would trigger a redemption fee to be charged. The redemption fee would even apply if the second transaction was a manual or automatic rebalancing of the participant's account. In this case the participant could be charged a fee just by making two transactions that they have been encouraged to do (deferring money into their 401(k) and rebalancing their account).

I don't believe that short-term redemption fees were designed to discourage people from participating in a 401(k) plan, but that is exactly what the fees are going to wind up doing. This is why I am encouraged to see that the SEC is looking to add several special measures to short-term redemption fee rules that would minimize the potential impact to long-term investors. I believe the proposed measures need to be adopted so that redemption fees do not hurt a group of investors that I don't think were intended to be impacted. The measures that I would like to see adopted include:

* set a FIFO method for determining the amount of any redemption fee;
* waive any redemption fee of $50 or less; and
* limit the fee to investor-initiated transactions, which would exclude purchases made with reinvested dividends or 401(k) elective deferrals.

Sincerely,

Josh Meeks
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