



Breakpoint Discounts – Are you Owed a Refund? **(1/20/04)**

We know many investors have received correspondence from various brokers related to an industry-wide inquiry concerning the failure of many brokers (also known as “registered representatives” or “financial advisors”) and brokerage firms to provide clients with breakpoint discounts on mutual fund purchases. In this letter, we hope to explain the reason for these inquiries and answer frequently asked questions related to the inquiry. There is no action required on your part related to your managed accounts with Mainstay Capital Management with respect to this issue. Mainstay is a fee-only, independent, investment advisor. As such, we do not purchase load funds (funds with a sales charge) for our clients’ accounts, nor do we participate in any revenue sharing program with mutual fund companies, insurance companies (annuities), brokerage firm, or banking institutions. Therefore, breakpoint discounts do not apply to the mutual fund purchases in our clients’ accounts.

An industry-wide survey conducted by the National Association of Securities Dealers (NASD), the regulatory body for brokerage firms and brokers, indicated that investors did not receive breakpoint discounts on certain front end sales charges in approximately one out of every five purchases of Class A mutual fund shares that were eligible for such discounts. Breakpoint discounts reduce the front-end sales charge you pay when you purchase Class-A mutual fund shares through a broker or other financial advisor. The investment levels at which the discounts become available are called “breakpoints”. The amount of the discount is based on the size of the investment, and the discount increases as the size of the investment increases. For example, a 5% front-end sales load for a \$10,000 mutual fund purchase may be reduced to 4.25% for a \$50,000 purchase.

The NASD has required certain broker-dealers to conduct a review of mutual fund purchases of \$2500 or more from January 1, 2001 to November 3, 2003. In addition, the NASD is also requiring approximately 450 broker-dealers to send written notification to customers who purchased Class-A mutual fund shares from January 1, 1999 to November 3, 2003.

The refunds owed to investors are significant. Not all broker-dealers have reported how much in refunds is owed to their clients, however, we expect tens of millions of dollars will be owed to investors. We strongly recommend you investigate and seek all refunds owed to you. If you think you may not have received a breakpoint discount to which you were entitled, contact the firm from which you purchased the mutual fund shares and incurred a sales charge, as that firm will be able to provide you with information about purchases you made at that firm.

In your accounts managed by Mainstay Capital Management, mutual funds are purchased at Net Asset Value (NAV). The client pays no front-end sales charges; therefore, breakpoints do not apply to mutual fund purchases in your accounts. Front-end (Class-A shares) and back-end (Class-B shares) loaded funds are typically purchased by brokers or other financial advisors who are paid a commission or receive compensation from the investment products they purchase or recommend for client accounts. As stated in our “Conflict of Interest” disclosure, Mainstay Capital Management does not receive any compensation in this manner. However, many brokers and other financial advisors do.

If you have any further questions on “breakpoints” or need assistance in claiming a refund owed to you as a result of breakpoint discounts on mutual funds purchased through another firm, call us toll-free at 1-866-444-6246. We will be glad to help you in any way we can.

For additional information about mutual fund breakpoints, visit the NASD’s Investor Education web page at www.nasd.com/investor and review NASD’s Investor Alert called Mutual Fund Breakpoints: Are you owed a Refund?