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## Edward Jones

February 12, 2007

Ivan L. Strasfeld  
Director  
U. S. Department of Labor  
Office of Exemption Determinations  
Employee Benefits Security Administration  
Washington, DC 20210

Dear Mr. Strasfeld:

Thank you for the opportunity to reply to your letter, dated December 12, 2006, seeking information regarding our experience with computer models that provide investment advice to participants and beneficiaries of IRAs. We hope that this information will be of assistance to you in determining whether the type of model described in the Pension Protection Act is feasible for IRAs.

Edward Jones is dually registered as a broker dealer and an investment adviser. We operate nearly 10,000 branches in the United States and serve the financial needs of more than 7 million individual investors, many of whom maintain IRAs. Our service to our clients is built on personal relationships; on getting to know our clients as people, so that we can understand their objectives and how best to assist them in achieving those objectives. In doing so we provide our clients with the information, assistance, products and service they need to reach their financial goals.

While Edward Jones utilizes a variety of computer based financial tools, we do not currently use the type of comprehensive computer advice model described in your Request for Information for IRAs. We are, of course, constantly looking for new and better ways to equip our professionals to assist clients in making their own investment choices,

We welcome your questions and look forward to further opportunity to participate in this process.

Sincerely,

Clif Helbert  
General Partner  
Retirement Plan Marketing

### **Edward Jones' Response to Request for Information**

1. *Are there computer model investment advice programs for the current year and preceding year that are, or may be, utilized to provide investment advice to beneficiaries of plans described in section 4975(e)(1)(B)-(F) (and so much of subparagraph (G) as relates to such subparagraphs) (hereinafter "IRA") of the Code which:*

*(a) Apply generally accepted investment theories that take into account the historic returns of different asset classes over defined periods of time;*

*(b) Utilize relevant information about the beneficiary, which may include age, life expectancy, retirement age, risk tolerance, other assets or sources of income, and preferences as to certain types of investments;*

*(c) Operate in a manner that is not biased in favor of investments offered by the fiduciary adviser or a person with a material affiliation or contractual relationship with the fiduciary adviser;*

*(d) Take into account the full range of investments, including equities and bonds, in determining the options for the investment portfolios of the beneficiary; and*

*(e) Allow the beneficiary, in directing the investment, sufficient flexibility in obtaining advice to evaluate and select investment options.*

We are unaware of any comprehensive computer model investment advice programs that meet all the criteria set forth in Question 1.

2. *If currently available computer models do not satisfy all of the criteria described above, which criteria are presently not considered by such computer models? Would it be possible to develop a model that satisfies all of the specified criteria? Which criteria would pose difficulties to developers and why?*

We are unaware of any comprehensive computer model investment advice programs available in the marketplace today that effectively consider the criteria of subparagraphs (d) or (e) of Question 1. We are unaware of any such models that integrate the full range of investment choices from among all permissible equities, bonds, and other individual securities and asset types. Moreover, to the extent the comprehensive data sources necessary to create such a model should become commercially available in a uniform and accessible format, (and, as far as we are aware, they are neither currently available nor expected to become available in the foreseeable future) our experience leads us to question whether such a model would be practical in providing the benefits to IRA beneficiaries that the Department intends. As is obvious, potential investments would include thousands of mutual funds and equity securities as well as an even larger number of debt instruments and derivatives, comprising an almost unascertainable number of staggered expirations, call features, and tranches. As a practical matter, development of a computer model that properly considers all of these factors would be very difficult to achieve. Such a database, containing such vast volumes of information that would necessarily be updated on a continuous basis, would likely be prohibitively expensive to maintain, and unwieldy to use.

More daunting, perhaps, is the truth in the old adage that "past performance is not a predictor of future results." Such a computer model would necessarily catalog historic results, but could not provide assistance in deciding the future prospects of a potential investment without substantial subjective input. For example, inherently, judgments about a mutual fund's desirability for purchase are altered by factors such as whether the individual managing the fund has changed or whether the future prospects for the sector are different from the earlier measured period. Projections as to future interest rates are, to some investors, more important

to the decision to invest in a debt instrument than a review of a computerized database of past results. These examples are only a few of the many issues to be considered and each would be a serious impediment to the development of objective computer programs satisfying criteria (d).

We similarly question whether an effective computer model could be designed that would accomplish the results contemplated by subparagraph (e). In our experience there is an inverse ratio between the sophistication of the investor and the investor's need for assistance in operating a computer based model or in understanding a model's output. We believe that personalized discussion is necessary to aid investors in allowing them to balance their competing goals in a manner that truly meets their desires.

*3. If there are any currently available computer model investment advice programs meeting the criteria described in Question 1 that may be utilized for providing investment advice to IRA beneficiaries, please provide a complete description of such programs and the extent to which they are available to IRA beneficiaries.*

As noted above, we are unaware of any comprehensive computer model investment advice programs that meet the criteria specified in Question 1.

*4. With respect to any programs described in response to Question 3, do any of such programs permit the IRA beneficiary to invest IRA assets in virtually any investment? If not, what are the difficulties, if any, in creating such a model?*

Please see our responses to Questions 2 and 3.

*5. If computer model investment advice programs are not currently available to IRA beneficiaries that permit the investment of IRA assets in virtually any investment, are there computer model investment advice programs currently available to IRA beneficiaries that, by design or operation, limit the **investments** modeled by the computer program to a subset of the investment universe?*

Certain computer models are available in the marketplace that have limited investment product choice options for IRA beneficiaries. Primarily, these models are either limited to choices by general asset categories, or are limited to a choice of specific investments within an asset category (i.e., choices from among subset of the universe of U.S. registered mutual funds).

*If so, who is responsible for the development of such investment limitations and how are the limitations developed?*

It is our understanding that individual brokerage and advisory firms have developed proprietary computerized models themselves, or have hired outside computer or investment research firms to do so. We believe that limitations inherent in those proprietary systems are influenced by, among other things, the cost of creating and updating the models and the availability of public information regarding the investments. Several of such models have been designed and are currently utilized in the 401(k) market which, by its nature, explicitly limits the investment options of participants to a defined set of investment options.

*Is there any flexibility on the part of an IRA beneficiary to modify the computer model to take into account his or her preferences?*

As stated herein, we are not aware of any computer model investment advice program that meets all the criteria of Question 1. With respect to the computer tools that currently exist, as referenced in this response to Question 5, we believe that some of those limited systems may permit a change in inputs to the system, which would necessarily result in a change in outputs. We believe that these tools are, by themselves, ineffective in delivering and explaining necessary information to all but the most sophisticated investors. The vast majority of individual investors benefit from the assistance of professionals who may use the output to help those individuals reach their own decisions.

*Are such computer model investment advice programs available to the beneficiaries of IRAs that are not maintained by the persons offering such programs?*

We are not aware of any.

*6. If you offer a computer model investment advice program based on nonproprietary investment products, do you make the program available to investment accounts maintained by you on behalf of IRA beneficiaries?*

We do not presently offer a computer model investment advice program.

*7. What are the investment options considered by computer investment advice programs? What information on such options is needed? How is the information obtained and made part of the programs? Is the information publicly available or available to IRA beneficiaries?*

The investment options considered by computer investment advice programs of which we are aware vary with the particular program. The typical programs provide only broad, general investment categories such as, Growth, Growth and **Income, Income** and Cash, while others provide output suggesting a specific fund,

The information that may be needed about investment options could include but not be limited to the following publicly available information: ratings, markets where the investments are sold, background and experience of management, financial data, trading activity, pricing and expenses.

*8. How should the Department or a third party evaluate a computer model investment advice program to determine whether a program satisfies the criteria described in Question 1 or any other similar criteria established to evaluate such programs?*

As we believe it is not practical to create a computer model investment advice program which takes into account "the full range of investments" as described in Question 1, we do not believe we can provide a reasonable method for how to evaluate such a model.

*9. How do computer model investment advice programs present advice to IRA beneficiaries? How do such programs allow beneficiaries to refine, amend or override provided advice?*

Most investment advice models of which we are aware deal with broad asset allocation categories. Those which make specific investment recommendations are based on subjective choices made by the provider, typically, a brokerage firm, As noted in our response to Question 5, we believe that some of the models in use today allow a change in inputs, which

would necessarily result in a change of outputs. Beneficiaries are able to accept or reject any part of the advice.