

FINRA review letter 2007-1010-0179/H

The article "Control Capital Gains Distributions with UITs" will not be used

The article "Don't Want to Risk Your Principal, Consider This" will not be used

The following verbiage has been added the article " ETFS Can Offer Diversification, tax breaks:"

Note that the strategy outlined will incur commissions for each ETF transaction and these costs must be considered in light of the tax savings. Additionally, there is risk in any investment strategy and profits are not guaranteed.



October 16, 2007

Lisa Mays
FINANCIAL TELESIS INC
4340 Redwood Highway Suite #A23
San Rafael CA 94903

Reference: FR2007-1010-0179/H

Org Id :00031012

REVIEW LETTER

1. Newsletter

Articles:

- Control capital gain distributions with UIT
- Don't forget to insure yourself against disability
- Don't want to risk your Principal
- ETFs can offer diversification, tax breaks
- Invest in the market safely with Indexed CDs

Rules: 2210, SEC 482

6 pages

Fee: \$100

Total Fee: \$100

Attention: Lisa Mays

It is our understanding based on your October 8, 2007 E-mail to Brian L. Finnell, of the Advertising Regulation Department, that the filing cover sheet included in this submission consists of 5 articles that will be presented in the above-referenced Newsletter.

In addition, please be advised that we have reviewed the Newsletter with the assumption that the final version of the material will prominently identify the member firm name, Financial Telesis, Inc., in accordance with Rule 2210(d)(2)(C)(i). If our assumption is inaccurate, please advise us, as additional comments will be necessary.

Revisions are necessary for the articles "Control capital gain distributions with UIT," "Don't want to risk your principal? Consider this" and "ETFs can offer diversification, tax breaks" to be consistent with applicable standards. We offer the following specific comments:



"Don't want to risk your principal? Consider this" Article

We note the discussion in the article "Don't want to risk your principal? Consider this" includes hypothetical illustrations regarding a \$100,000 diversified equity and fixed income portfolio over a 20 year period. These hypothetical illustrations use the historical average annual returns of the Franklin U.S. Government Securities, Franklin Income and New York Venture mutual funds to demonstrate the growth of an investment. Since the average returns used in the illustrations are historical performance for the mutual funds, the required or "standardized" average annual total returns for the one, five and ten year periods, must be provided as of the most recent calendar quarter end, in accordance with SEC Rule 482(d)(5)(ii). The required performance must be presented in accordance with the calculation standards in SEC Form N-1A and must be set out in no lesser prominence than the "average gains" figures, pursuant with SEC Rule 482(d)(5)(iv).

In addition, the performance disclosure legend included in SEC Rule 482(b)(3)(i) and (ii) must also be provided. Specifically, this disclosure must advise readers that performance data quoted represents past performance; that past performance does not guarantee future results; that the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost; and that current performance may be lower or higher than the performance data quoted. The legend should also identify either a toll-free (or collect) telephone number or a Web site where an investor may obtain performance data current to the most recent month-ended.

Further, if a sales load or any other nonrecurring fee is charged for any of these mutual funds, the maximum amount of the load or fee, and if the sales load or fee is not reflected, a statement that the performance data does not reflect the deduction of the sales load or fee, and that, if reflected, the load or fee would reduce the performance quoted.

The complete prospectus offer required by SEC Rule 482(b)(3)(i) is also required. In particular, the prospectus offer must advise an investor to consider the investment objectives, risks, and charges and expenses of the investment company carefully before investing; explains that the prospectus contains this and other information about the investment company; identifies a source from which an investor may obtain a prospectus; and states that the prospectus should be read carefully before investing.

In accordance with Rule 2210(d)(3), the required performance must also be accompanied by the disclosure of the total annual fund operating expense ratio, gross of any fee waivers or expense reimbursements, as stated in the fee table of each mutual fund's prospectus.



We remind the firm that the performance disclosure legend required by SEC Rule 482(b)(3)(i) and (ii) referenced above and the prospectus offer in SEC Rule 482(b)(1)(i) must be presented in a manner consistent with the presentation standards outlined in SEC Rule 482(b)(5). These disclosures must be presented in a type size at least as large as and of a style different from, but at least as prominent as, that used in the major portion of the article. Moreover, the statements required by paragraph (b)(3) of SEC Rule 482 (the performance disclosure legend) must be presented in close proximity to the performance data.

As a related matter, the same prominence and proximity standards for disclosure of the expense ratio as those used for standardized performance and sales charges under the SEC rules will be applied to the inclusion of the expense ratio. Therefore, upon inclusion of the expense ratio(s), this information must be presented in a prominent manner.

“Control capital gain distributions with UIT” Article

The statement “For millions of investors looking for higher returns and portfolio diversification, there is no better investment than a mutual fund” in the article “Control capital gain distributions with UIT” is exaggerated and unwarranted, contrary to Rule 2210(d)(1)(B), absent any basis to substantiate this claim. Therefore, this statement must be revised.

In order to provide a fair and balanced presentation, pursuant to Rule 2210(d)(1)(A), a *clear* and *prominent* disclosure must remind readers that the value of the units in a UIT will fluctuate with the portfolio of the underlying securities. Moreover, it should also be clear that the sponsor of a UIT may terminate the UIT earlier than the specified liquidation date of the trust and that redemption will be at a price which may be more or less than the original price paid for the units by the investor. Thus, these issues must be addressed.

We also note that this article refers to a specific UIT investment (First Trust Dow Target 10 Portfolio). Consequently, the article must provide the complete prospectus offer required by SEC Rule 482(b)(1)(i). The prospectus offer must be presented in manner consistent with the presentation standards outlined in SEC Rule 482(b)(5).

“ETFs can offer diversification, tax breaks” Article

In order to provide a fair and balanced presentation, pursuant to Rule 2210(d)(1)(A), the article “ETFs can offer diversification, tax breaks” must be revised by including *clear* and *prominent* disclosure that informs readers of the risks associated with the tax saving strategy proposed. For



example, a disclosure must alert readers that an investor is subject to commission charges for each ETF transaction. Thus, an investor must consider the costs associated with these expenses when evaluating his or her tax savings.

Remaining Articles

The remaining articles appear consistent with applicable standards.

If you have any questions regarding these comments, please contact me at (240) 386-4500

Sincerely,

Derek A. Ashworth
Associate Supervisor

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NOTE: As a FINRA member, you are responsible for determining whether any communication with the public, including material filed with the Department, complies with all applicable requirements. The views expressed herein are solely advisory and do not constitute findings of compliance with, or violations of FINRA or SEC rules. It is assumed that the material does not omit material facts, contain statements that are not factual, or offer opinions that do not have a reasonable basis.

ETFs can offer diversification, tax breaks

Over the last few years, a new breed of mutual fund has become available to investors seeking liquidity and lower costs. These funds, called exchange-traded funds (ETFs), trade on the major exchanges and behave just like stocks, except that they offer similar diversification and professional management available in traditional funds. Over 350 different exchange-traded funds are now available, and the number is continuing to grow.

These funds can be useful for investors seeking to reap capital losses at year-end. As a hypothetical example, assume that you have stock in a certain technology company. The stock price has dropped precipitously since you got in, but you feel that this is only temporary. However, you would like to realize a capital loss on the stock while it is trading in its current range. But you must watch out for the “wash sale” rule as dictated by the IRS prohibiting the repurchase of any stock sold for a loss for at least 31 days following the sale. Therefore, a solution could be to sell the stock and buy shares of the appropriate corresponding exchange-traded technology fund. Even if this fund actually has your former stock as one of its core holdings, it is still considered a separate security by the IRS and the SEC. Therefore the wash sale rules will not apply. Furthermore, you now have diversification within the technology sector, while retaining the same liquidity as before. The proliferation of exchange-traded funds now allows you to realize a loss with one fund and then jump into another if you desire.

And when should you sell a stock and buy the ETF representing the asset class to which the stock belongs? The obvious answer is when you have capital gains or other income and taking a loss would help shelter that income. A capital loss can be declared against the amount of any gain received, plus \$3,000 of ordinary income per year.

Note that the strategy outlined will incur commissions for each ETF transaction and these costs must be considered in light of the tax savings. Additionally, there is risk in any investment strategy and profits are not guaranteed.

If you would like to know more about exchange-traded funds and whether you would benefit from using them for tax swaps, call us. We can analyze your portfolio to see whether this strategy or another tax saving strategy would be beneficial for you.