APPENDIX B

AEFA misrepresents and omits many material facts regarding the mutual funds it sells, including but not limited to the following:

MISREPRESENTATION/ OMISSION	**TRUTH**
a. "Advisors" omit that IDS, whose group of mutual funds it offers to clients, is affiliated with AEFA.	IDS and AEFA are sister corporations, both wholly owned subsidiaries of American Express Corporation.
b. AEFA presents only "*gross*" investment returns.	Only "net returns" reflect the true financial effect of an investment – and the impact of AEFA's fees.
c. AEFA projects only ***positive*** returns on its mutual funds.	Objectivity would require spending significant time on the real possibility of ***negative*** returns; *see*, *e.g.,* market indices – 2000-2002.
d. AEFA inflates investment return projections, *e.g.*, 12% per year – over many decades.	No AEFA-recommended mutual fund has made such returns over such a long period of time.
e. AEFA omits the existence and nature of many fees in calculating investment returns.	AEFA's load charge on Series A funds is 5% and on Series B funds is up to 8%, and its internal charges reduce ***net*** investment returns by 25% – the second highest in the industry.
f. When selling "Class A" shares, AEFA omits the fact that many other companies will often lower or eliminate the large up-front load.	Objectivity requires the disclosure that many mutual fund companies will reduce or eliminate the up-front load if the investor makes a large purchase, already holds other mutual funds offered by the same fund family, or commits to regularly purchasing the mutual fund's shares.
g. AEFA financial "advisors" refer to "Class B" shares as "no-load" shares.	Although Class B shares typically do not charge a front-end sales charge, they do impose sales charges that may be higher than those of Class A shares (up to 8%). Class B shares also normally impose a contingent deferred sales charge (CDSC), which clients pay when *selling* shares.
h. AEFA sell clients Class A shares even when clients express a willingness to hold the shares a long time.	Holding Class B shares beyond the time frame required to eliminate the back-end load of Class B shares will generally render Class B shares preferable to Class A shares.

MISREPRESENTATION/ OMISSION	**TRUTH**
i. AEFA does not explain the advantages and disadvantages of buying one class of stock versus another. Instead, advisors sell whichever one will appeal more to the client (if they disclose the loads, fees and charges at all) so that the client will invest the most amount of money and generate the highest commission.	The failure to adequately explain the advantages and disadvantages of buying one class of stock versus another results in a hodgepodge of mutual fund investments, and cost clients substantial sums of money in avoidable costs.
j. AEFA conceals the existence of true "no load" funds with far lower cost structures.	Objective advice would educate clients to the fact that there are many alternative mutual funds with far lower cost structures. (Considering that AEFA is already charging clients for its ostensible investment ***advice***, AEFA is even more obliged to minimize clients' investment ***costs***.)
k. AEFA omits any performance comparison between AEFA-affiliated mutual funds and those offered by others.	An *objective* advisor would disclose that AEFA-affiliated mutual funds are among the *lowest* performing of all those available (due in part to their high loads, fees, and charges). For instance, of American Express's ***189*** funds, only ***3*** ranked in the top *quarter* of the Morningstar category over the three years ended June 30, 2002, and only *27* ranked in the top *half*. An astonishing 86% were *below* average.
l. AEFA conceals the existence of indexed mutual funds, such as the Vanguard 500 Index Fund, which has annual costs of roughly 0.18%.	*Objective* advice would include *at least* the disclosure of the *existence* of such non-proprietary indexed mutual funds – if not their strong recommendation. Such funds are the lowest-cost, lowest-maintenance form of investing for an individual. They have outperformed 86% of actively managed funds in any given year (and the figure is even higher compared to the poorly performing AEFA affiliated funds).
m. AEFA omits differentials in compensation it pays on the sale of proprietary mutual funds versus non-proprietary funds.	The vast differentials in compensation that AEFA pays out to "advisors" and others in the advisors' branch offices create direct conflicts of interest between AEFA and its clients, making it virtually impossible for AEFA to address its clients' needs honestly and objectively.

MISREPRESENTATION/ OMISSION	**TRUTH**
n. At its website, AEFA counsels the general public: *"As a part of your process for choosing a financial advisor, ask for a fee schedule...."*	AEFA assiduously conceals its fee and commission schedule from clients.
o. In addition to violating its common law fiduciary duties, AEFA evades an 1999 NASD rule prohibiting the payment of higher payouts on the sale of proprietary investment company products rather than unaffiliated funds.	AEFA evades the NASD rule by two methods: 1) It has paid its *"advisors"* (platform 2 and 3) ***less*** on the sale of unaffiliated funds – by levying administrative fees, called "ticket charges;" and 2) AEFA exerts pressure on its "*advisors*" to push its proprietary products through *branch office* compensation, quotas and/or bonuses.