Via Email

September 8, 2010

John P. Greaney
jpgreaney@hotmail.com
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Re: Retire Early Article on Matson Money

Dear Mr. Greaney:

I am writing to you about an article recently published on the home page of Retire Early, a website appearing under your copyright, regarding Matson Money, Inc. ("Matson Money"). The article, entitled "Update on DFA-approved advisors – Who'll Save the World from Mark Matson," appears to have been first published on July 1, 2010, and updated as of July 9. The purpose of this letter is to correct various misstatements we identified in reviewing your article which create an erroneous perception of Matson Money. In addition, we are taking this opportunity to provide you with information on the value-added services provided by Matson Money to clients.

Relevant Background on Matson Money

Since the article evidences a lack of understanding of Matson Money's investment management model, we are providing the following background information, some of which is necessary to understand why the article is inaccurate. First, Matson Money is an investment adviser registered under the Investment Advisers Act of 1940, as amended ("Advisers Act"), which imposes certain legal duties and obligations, some of which may even be applicable to unregistered advisers like yourself. Matson Money serves as a "manager of managers" to three series of an open-end investment company ("mutual fund") registered under the Investment Company Act of 1940, as amended ("Company Act"), which Matrix uses in its mutual fund asset allocation advisory program. The "Matson Money, Inc. Family of Funds of The RBB Fund, Inc." is a family of no-load mutual funds.[1] Each Matson Fund is a "fund of funds" which invests primarily in shares of other mutual funds, mainly no-load mutual funds managed by Dimensional Fund Advisors, LP ("DFA"), an unaffiliated, registered investment adviser. DFA funds are generally not available to individual investors with small accounts except through the services of an investment adviser like Matson Money. The Funds are designed to target specified percentages of certain asset classes in each Fund's applicable investment category to seek

[1] More complete information about the Matson Funds, including fees and expenses, is available in the prospectus which can be obtained through Matson Money upon request.

maximum portfolio diversification, enhanced return opportunities and diminished portfolio volatility. Matson Money receives 0.50% of assets under management from each Fund.

Matson Money, through its Matrix Asset Allocation ("Matrix") division, also provides asset allocation investment advisory services, primarily mutual fund asset allocation. However, Matson Money does not accept client relationships unless they are first initiated by a co-adviser or solicitor. Co-advisers are typically either unaffiliated registered investment advisers, investment adviser representatives of another registered adviser or registered representatives of unaffiliated registered broker-dealers. None of these co-advisers are employed by or affiliated with Matson Money. In fact, Matson Money has no affiliated entities, advisory or otherwise.

The unaffiliated co-advisers enter into arrangements with Matson Money under which the co-advisers are responsible for creating and maintaining direct client contact. By mutual agreement of the co-advisers and their clients, each co-adviser introduces those of its clients who are interested in Matson Money by way of a tri-party agreement among Matson Money, the co-adviser and the client. While Matson Money is responsible for all asset allocation, portfolio management and asset rebalancing decisions, the co-advisers provide a variety of services to the joint clients. Co-advisers are responsible for all direct client communications and are also responsible for collecting and periodically updating information about clients' investment objectives, risk tolerance, financial situation, time horizon, current investments, and personal financial goals in the form of a Questionnaire designed by Matson Money.

Many Matson Money clients participate in the Matson Fund Platform which allocates assets in engineered portfolios using the Funds managed by Matson Money, although other advisory services are available. In the Matson Fund Platform, the completed client Questionnaires are used by Matson Money to assign each client account to one of seven model portfolios which Matson Money engineers using various combinations of Fund investments. Clients are also responsible for paying their co-advisers an advisory fee, outside the Funds, none of which is received or obtained by Matson Money. Such fees may range from .25% to 1.4% of client assets under Matrix management. This fee is agreed to in the tri-party contract and charged quarterly in advance.

Erroneous Statements in Article

Based on the facts provided above, we wish to correct various misstatements which appear throughout the article. First, the article repeatedly refers to the Matson Money co-advisers as "affiliates".[2] As explained above, the co-advisers are unaffiliated registered investment advisers,

[2] For example, the article states: "As an alternative to the tiered fee schedule above, Matson also allows its *affiliated* advisors to charge a flat fee of 0.75% to 1.40% applied to a portfolio of any size"; "The 'Million Dollar Model' seems to be an excellent deal for Mark Matson and Matson *affiliated* financial advisors who split an annual 2% of assets management fee, but what about the clients?"; and "As an alternative to the tiered fee (cont'd)

investment adviser representatives or registered representatives of registered broker-dealers. As noted above, Matson Money has no affiliates whatsoever. These patently false statements should be removed from the article promptly.

Second, the article implies that because Matson Money failed to include any client testimonials on its website, clients are dissatisfied. The article states: "I didn't see much from the clients, but there are dozens of glowing recommendations from financial advisors using the Mark Matson Million Dollar Model to dramatically increase their fee income." The clear implication is that the only persons satisfied with Matson Money are co-advisers, because if clients were satisfied, Matson Money would have provided recommendations from them as well. This implication is both inaccurate and irresponsible given that registered investment advisers are prohibited by Rule 206(4)-1, the adviser Advertising Rule, from including client testimonials in any public advertisement. Moreover, the Matson Money website you reviewed is targeted to co-advisers, not to clients or prospective clients. There is no prohibition relating to such communications other than the general antifraud provision that requires that all marketing materials of advisers, whether registered or not, must be true and not misleading.

This general antifraud provision applies equally to the article which appears on the Retire Early website if Retire Early or its author are paid for their investment advice, no matter how generic that investment advice may be since the Advisers Act applies to both registered and unregistered investment advisers. Investment advisers subject to the Advisers Act include advisers who only give advice about other advisers, as long as they receive any compensation for their advice. Compensation can take many different forms and is not limited to an advisory fee as such.

Third, the article repeatedly misstates the maximum fees chargeable to client accounts and implies that all of the fee revenue is paid to Matson Money. For example, the article states: "The 'Million Dollar Model' seems to be an excellent deal for Mark Matson and Matson affiliated financial advisors who split an annual 2% of assets management fee, but what about the clients?" As noted above, Matson Money receives an asset based fee of 0.50% of the assets under management in each Fund. It does not receive any other management fees from clients. The co-advisers' management fees range from 0.25% to 1.40% which they negotiate directly and individually with their clients. At most, the highest potential combined fee in the Free Market Fund platform is 1.90%, which is below the 2.0% referenced in the article.

The article also states: "Mark Matson created these three fund of funds portfolios that invest in DFA mutual funds while adding a 0.98% to 1.26% annual expense ratio on top of the expenses of the underlying DFA funds. It's an innovative way to skim a substantial additional fee from his customers." The author has apparently failed to understand the Fund prospectus which

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schedule above, Matson also allows its *affiliated* advisors to charge a flat fee of 0.75% to 1.40% applied to a portfolio of any size." [italics added] Similar misstatements appear elsewhere in the article as well.

makes clear that the Fund's expense ratios actually cover the expenses both of the underlying DFA funds and the entire 0.50% Matson Money management fee. These expense ratios are neither additional compensation to Matson Money nor layered on top of any other Fund expenses. The only separate fees charged to clients are the co-adviser fees which are addressed above.
We also object to the repeated use of the word "skim", both as set forth in the previous quote and throughout the article.[3] As used in the article, "skim" clearly implies that Matson Money is taking something from clients that they either were not told about or do not understand. Matson Money's fees are fully disclosed, both in the Fund prospectus and, with respect to the co-adviser's fees, in Item 1 of the Form ADV, Part II, the client disclosure brochure required to be delivered to every client no later than the date on which they enter into an agreement with the adviser. In fact, if the disclosure brochure is not delivered 48 hours in advance of that date, the client may terminate the contract at any time within five days and no fees may be charged for the terminated contract. Since clients are fully apprised of all fees, the accurate verb describing Matson Money fees is "charge", not "skim".

The article also claims that "All new clients automatically go into the Market platform with its much higher fees." In fact, the total client fees on the Free Market platform are substantially similar to the older platform with some clients paying slightly higher fees and others paying slightly lower fees. More importantly, however, the 0.50% management fee paid to Matson Money under the new Free Market platform is significantly lower than what Matson Money received under the old platform.

The article further states: "Maybe it's just me, but I have a hard time finding anything "Christian" in a financial marketing model skimming a 2% - 3% annual fee from the hapless client." Setting aside any spurious religious arguments, since the origin of that reference derived not from Matson Money, but from a co-adviser, we note again that the total combined management fee charged by Matson Money and our co-advisers ranges from 0.75% - 1.90%. Thus, referencing fees of 2% - 3% is irresponsible at best and false and misleading at worst. If the real point is that the combined Matson Money, co-adviser and DFA fees are higher, again, the total fees, even including the embedded DFA management fees, do not exceed 2.54%. Since every adviser that markets DFA funds charges its advisory fee on top of the DFA fund management fees, it is inherently false and misleading to imply that shares of DFA funds can be obtained without paying another layer of management fees since DFA fund shares are adviser-sold shares and are not marketed directly to investors.

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3 For example, the article also states: "Maybe it's just me, but I have a hard time finding anything "Christian" in a financial marketing model *skimming* a 2% - 3% annual fee from the hapless client"; and "A retiree taking a 4% or $40,000 annual withdrawal from a $1 million account, Matson would *skim* a worst case $14,000 annual management fee and an additional $10,800 in annual fees for the Free Market Funds -- leaving a bit more than $15,000 for the unwitting Matson client." [italics added]

Moreover, Matson Money clients are far from "hapless" given that each client is represented, and educated, by its co-adviser before becoming a Matson Money client and continues to be educated throughout the life of the tri-party agreement. This is significantly different than what occurs with clients of many no-load fund distributors who generally go no further than selling fund shares without providing any investor education, never mind providing the kind of asset allocation and rebalancing services provided by Matson Money.

The article also states: "A retiree taking a 4% or $40,000 annual withdrawal from a $1 million account, Matson would skim a worst case $14,000 annual management fee and an additional $10,800 in annual fees for the Free Market Funds -- leaving a bit more than $15,000 for the unwitting Matson client." In fact, the maximum annual Matson Money management fee on an account of this size is $12,000, which includes the embedded fund management fee of 0.50%, or $5000. If the client only wanted $40,000 withdrawn total each year, then $28,000 would be available to the client at the worst case scenario. At the lowest end of the fee schedule, only $7450 would be withdrawn for fees, leaving $32,550 after fees … a far cry from the scenario painted in the article. These false and unnecessary investor scare tactics are as bad or worse than anything the author has accused Matson Money of doing in managing client accounts.

Fourth, the article warns investors that they are overpaying Matson Money and its co-advisers because it does not require much either to assess a client's risk tolerance or to allocate portfolios across a group of index funds.[4] These warnings completely ignore the ongoing investor education and client meetings provided by co-advisers which play no part in the services offered by hands-off distributors of no-load funds. Continuing education, which includes teaching investors to be disciplined and prudent, is a value-added service. According to Morningstar research on Investor Behavior,[5] the average DFA investor over the 10 year period ending in 2009 made 3.13% less than the inherent return of the DFA funds. This is largely attributed to the fact that investors made the age old mistake of attempting to time the market, causing them to miss out on over 3% per year of return. Co-advisers can educate clients about the dangers of attempting to time the markets and on strategies for staying focused and invested during down markets. In addition, these warnings appear to be ignorant of the quarterly portfolio rebalancing reviews undertaken by Matson Money for each client portfolio and the asset allocation adjustments made on an as needed basis for each portfolio.

Fifth, the article includes a chart outlining Matson Money fees for different account sizes and laments that Matson Money fees are too high compared to other DFA providers. The table in the article includes the expense ratios of underlying DFA funds for Matson Money Funds, but

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4 Specifically, the article states: "Especially for investors with larger accounts, the assets under management (AUM) fee model appears to result in an annual charge that's wildly inflated given the small number of man hours required to manage a portfolio of 10 to 15 index funds"; and "If you're not careful, you could wind up paying tens of thousands of dollars for a few hours of the advisor's time. Assessing a client's risk tolerance and allocating a portfolio across 10 to 15 index funds should take a few hours at most for a competent advisor." [italics added]

5 *See* Morningstar Principia, December 31, 2009.

neglects to include the expense ratios in the fees for the other providers. Thus, it is not an "apples to apples" comparison. A true comparison between Matson Money's fees and those of the other DFA providers listed would include only the 0.50% fee charged by Matson Money since the co-adviser fee is for a separate service provided solely by, and received solely by, the co-adviser and the kind of personalized services they provide to clients are not generally provided by DFA fund share distributors.

Finally, the article states "Matson's wife Melissa even maintains a Rich Chick web site." The referenced website is actually operated and maintained by Michelle Matson, my sister in law, not by my wife, Melissa.

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We request that the gross inaccuracies set forth in the article as it currently appears on the Retire Early website be amended promptly or that the article be taken down from the website. Absent your earliest cooperation, we will pursue other avenues for relief.

Sincerely,

Mark E. Matson

Mark E. Matson
President