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September 13, 2004

Mr. Jonathan G. Katz
Secretary of the U.S. Securities and Exchange Commission
SEC Headquarters
450 Fifth Street, NW
Washington, DC 20549-0609

Re: File No.: S7-30-04

Dear Mr. Katz:

"My problem with the SEC's current initiative is that the initiative cannot accomplish what it seeks to accomplish."

"Hedge fund arbitrageurs are required to move flexibly and expeditiously if they are to succeed. If placed under increasing restrictions, many will leave the industry -- to the significant detriment of our economy."

- *Comments from Chairman Alan Greenspan on July 20, 2004 to the Senate Banking Committee*

Chairman Greenspan's comments to the Senate Banking Committee on the proposed registration of hedge funds under the Investment Advisers Act of 1940 highlight our concerns that this rule conveys. As a small hedge fund (less than \$50 million), the proposed rule will have a higher incremental burden on our partnership. While we commend the noble thesis that these proposals will help to protect investors, larger bureaucracies and regulations have done little to protect fraud at major corporations or at some of the larger mutual fund families. We are concerned that these proposals blindly put undue legislation on the honorable portion of our industry, and yet, fraudulent funds will still "fly under the radar."

First, as a matter of background, our fund was founded in 1998 and our offering documents were written by Seward & Kissel, LLP. We have been audited by Deloitte & Touche LLP since inception. Our prime broker is currently Credit Suisse First Boston, and prior to that Donaldson, Lufkin and Jennrette. We are majority owned by a broker dealer, thus subject to bi-yearly audits from the NASD. We feel

that having the highest quality attorneys, auditors and primer brokers is a selling point for our fund. In fact, our partners are extremely sophisticated investors who demand this type of infrastructure, support and documentation.

We run an extremely efficient operation that has several of us juggling more than one hat. First and foremost, we work to find and monitor high quality investments which will maximize our partners' investments. The Commission reported that small hedge funds would be no more burdened than the average small investment advisor by these new rules. We respectfully disagree with this assessment. Hedge funds are much more research orientated than investment advisors. Any incremental cost (whether monetary or opportunity) will hinder the funds' operations by lowering the overall research potential. In other words, we would either spend more time pushing paper or would have to defer research dollars to legal and administrative expenses. The increased outlay could mean not hiring the extra research analysts, or, in the extreme, the potential shutdown of the fund. Taking it one step further, many small hedge funds invest in small cap stocks which could, in effect, hinder this segment of the market.

The current proposal does not permit hedge funds with less than \$25 million to register, and funds with \$25-\$30 million would be "allowed" to register the SEC. The loophole for fraudulent investors still remains. Why not improve investor education regarding proper documentation and the due diligence process for investing in a hedge fund? Most of our investors have done thorough due diligence on the fund including legal and accounting reviews. The SEC could also tighten the "accredited investors" definition, thus eliminating participation by "non-qualified investors." Funds could certify that all investors meet the requirements for investing in hedge funds. Finally, if registration becomes a mandate, we believe that the registration capitalization requirement should be increased to \$100 million.

Regulated marketplaces are always less efficient than their less regulated counterparts. We can point to hundreds of situations where regulations actually enhanced the behavior they were trying to prevent. Further, regulations did little to hinder fraud in the mutual fund or equity markets. The proposed regulation will purportedly allow for insight into the operations at hedge funds. Do they plan to audit firms quarterly, yearly, bi-yearly? Hedge funds have high portfolio turnover and the insight that they achieve during an audit may be very fluid. It seems a significant amount of time, money and effort will be expensed by both the Securities and Exchange Commission and the hedge fund industry because of a very a small number of occurrences over the last five years (only 46 cases for more than 7,000 hedge funds) by a few unscrupulous managers.

In conclusion, this Texan wonders why the government "wants to fix what is not broke." Increased regulation will hinder the entrepreneurial spirit within the industry and deter managers from opening funds. The big funds will get bigger and strip liquidity from small cap stocks. At a time when many bulge bracket banks are lowering their employment levels, forcing these rules upon the hedge fund

community could just exacerbate the industry's job losses both in the front and back offices.

Thank you for doing such a comprehensive review prior to making your final proposals. We are available to provide information or additional insight if the commission so desires. We hope you take all constituencies into consideration before issuing your judgment.

Sincerely,

Jeffrey S. Dabbs, CFA
CFO, Blanco Partners LP