September 27, 2018

Via E-Mail to: rule-comments@sec.gov

Chairmen Jay Clayton
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Baltimore Roundtable Meeting (September 20, 2018)

Dear Mr. Clayton,

Thank you for putting the event together and giving people like me an opportunity to speak. It was a privilege and an honor to meet you and the other members of the SEC.

I’m writing to reiterate the issues I brought up at the meeting, which are also fundamentally responsible for ALL the problems you are working tirelessly to resolve.

As I mentioned before, I worked in finance for over 10 years (also have a BA in Economics and Finance, and a masters in Statistics) but left the industry because it’s essentially a scam where people are selling negative-sum gambles as positive-sum investments. The rules about disclosure, communications, differences between brokers and advisors are technically meaningless if the products the finance professionals are selling are negative-sum by design.

I spent seven years researching THE NEGATIVE-SUM NATURE OF EQUITIES and can assure you that it is the finance professionals who need to be properly educated.

By default, normal people are suspicious of stocks and correctly see them as gambling instruments. The reason they get involved is because miseducated finance academics, professionals and CNBC call stocks equity ownership instruments even when the company never pays the owners/shareholders any money. The fact is, finance professionals, including Buffett, have no idea why stocks are even called equity instruments, to begin with.

The association between stocks and the word “equity” comes from history. Before the 1900s, ALL stocks paid dividends, and history shows that stocks were indeed equity instruments at one point because there was a profit-sharing agreement between the shareholders and the companies they owned. Capital gains; the Ponzi profits from other investors was meant to be a secondary form of profit. It was never meant to be the primary or only way for investors to make money.

Finance people refer to stocks as equity instruments now, but it’s nothing more than an artificial label. Today’s stocks are fundamentally different from the equity instruments they once were.
Today, a share of Google (GOOG) can cost $1200, but Google states in writing; they don’t pay dividends, there are no voting rights, and the par value of GOOG is only $0.001. So, if you own a share of Google, you won’t receive any money from the business, you can’t vote, and Google is only obligated to pay you $0.001 for that $1200 share.

People don’t need a 4-page document that spins a negative-sum gamble into a positive sounding investment. They need simple warning labels that say:

“If you buy a share of Google. You’re not buying a piece of the company. Google is not planning to pay you anything, and the only foreseeable way you’re getting your money back is by selling your share to another investor.”

THERE’S NOTHING MYSTERIOUS ABOUT HOW THE STOCK MARKET WORKS—it’s just a system that shuffles money between investors.

Every day, we can clearly observe that what makes the stock price move is not the earnings or growth of the underlying company, but the exchange of money between investors.

Finance professionals can’t predict the behavior of stocks because there are no monetary connections between the stock and the underlying business revenues...there’s a speculative connection, but not a logical, legal, or monetary connection.

Stocks without dividends or foreseeable buybacks (which make up most of the market) are disconnected Ponzi assets, so whether the firm is making or losing money is irrelevant. This is why Tesla shares can go from $20-$380 while the company loses $6.6 billion. And, why Google shares can stay relatively flat while the company makes $28 billion (between 2007-2011).

I’m aware of the finance idea that says: The stock price represents the expectation of future cash flows.

The idea is ridiculous because, first of all, it is “unprovable.” There’s no way to show if it’s right or wrong. Second, if the idea was true, then Tesla investors in 2011 must have expected to make a lot of money over the next 8 years while Tesla loses $6.6 billion…?
The Tesla and Google Scenarios are not unique, but littered throughout the market.

- **Tesla Scenario**: A situation when shareholders make money from capital gains while the underlying company suffers extraordinary losses.

<table>
<thead>
<tr>
<th>Company</th>
<th>Period</th>
<th>Net LOSS</th>
<th>Share Price</th>
<th>Shares Outstanding (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesla Motors (TSLA)</td>
<td>2011 - 2018</td>
<td>$6,600,000,000</td>
<td>$20 → $380</td>
<td>95m → 170m</td>
</tr>
<tr>
<td>Zillow Group (Z)</td>
<td>2015 - 2018</td>
<td>$487,000,000</td>
<td>$24 → $60</td>
<td>119m → 138m</td>
</tr>
<tr>
<td>Palo Alto Networks (PANW)</td>
<td>2012 - 2018</td>
<td>$852,000,000</td>
<td>$127 → $215</td>
<td>68m → 93m</td>
</tr>
<tr>
<td>Carbonite (CARB)</td>
<td>2010 - 2018</td>
<td>$110,000,000</td>
<td>$12 → $41</td>
<td>25m → 34m</td>
</tr>
<tr>
<td>Akeryx (AYX)</td>
<td>2015 - 2018</td>
<td>$74,000,000</td>
<td>$16 → $54</td>
<td>NA → 30m</td>
</tr>
</tbody>
</table>

Source: United States Securities and Exchange Commission

<table>
<thead>
<tr>
<th>Company</th>
<th>Time Period</th>
<th>Net Income</th>
<th>Dividends</th>
<th>Share Price</th>
<th>Capital Gains</th>
</tr>
</thead>
<tbody>
<tr>
<td>B. Hathaway (BRK-A)</td>
<td>Jan 2008–Dec 2012</td>
<td>$49,457,000,000</td>
<td>$0.00</td>
<td>$134,200</td>
<td>$0.00</td>
</tr>
<tr>
<td>Google (GOOG)</td>
<td>Jul 2007–Sept 2011</td>
<td>$28,656,500,000</td>
<td>$0.00</td>
<td>$542</td>
<td>$0.00</td>
</tr>
<tr>
<td>Apple (AAPL)</td>
<td>Oct 2007–Sep 2009</td>
<td>$14,354,000,000</td>
<td>$0.00</td>
<td>$186</td>
<td>$0.00</td>
</tr>
<tr>
<td>Yahoo (YHOO)</td>
<td>Oct 2009–Oct 2012</td>
<td>$5,421,570,000</td>
<td>$0.00</td>
<td>$16</td>
<td>$0.00</td>
</tr>
<tr>
<td>Regeneron (REGN)</td>
<td>Feb 2014–Nov 2016</td>
<td>$1,664,096,000</td>
<td>$0.00</td>
<td>$336</td>
<td>$0.00</td>
</tr>
<tr>
<td>Chipotle (CMG)</td>
<td>Jan 2014–Dec 2015</td>
<td>$911,983,000</td>
<td>$0.00</td>
<td>$494</td>
<td>$0.00</td>
</tr>
<tr>
<td>Facebook (FB)</td>
<td>Jan 2012–Jul 2013</td>
<td>$776,500,000</td>
<td>$0.00</td>
<td>$26</td>
<td>$0.00</td>
</tr>
<tr>
<td>Netflix (NFLX)</td>
<td>Jul 2011–Aug 2013</td>
<td>$205,150,000</td>
<td>$0.00</td>
<td>$287</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

The net income data are from the United States Securities and Exchange Commission’s Form 10-K filings.

- **Google Scenario**: When shareholders make nothing or lose money while the underlying company reports extraordinary profits.

These situations can never happen with a legitimate investment scenario. Investors should not be able to make money while the company they own loses billions, and investors should not walk away with nothing while the company they owned made billions. But, both situations are possible in negative-sum Ponzi scenarios when investors are simply exchanging money with other investors, and the stock has no monetary connection to the company’s revenue.

**PEOPLE FALSELY ASSUME** they are making money because they don’t realize:

**$34 Trillion In Stocks = $0 In Real Money**

When they see $40,000 in their 401k, they’ll think that’s $40,000 in real money when it’s technically $0 in real money.

The value of stocks is just an idea, something completely cerebral and imaginary. It’s an abstract number that is backed by no one. Real money is countable and traceable. It’s legal tender that is backed by the government, and it is what investors ultimately care about. Investors don’t
buy stocks because they love abstract values and never want their money back. They buy stocks because they want more money.

**I KNOW ALL THE COUNTER ARGUMENTS.** Finance junkies will say: "But Google can start paying dividends," or "Tesla might start making money," or “Berkshire could buy back shares.”

Yes, hypothetically speaking, anything can happen. But hypothetical scenarios are unforeseeable and may or may never occur. They’re what the philosopher Karl Popper calls pseudoscience ideas that can’t be proven right or wrong.

On the other hand, the negative-sum Ponzi scenario where investors are shuffling money between each other is an observable situation we can witness every single day.

It is illogical to debate something that is observable with hypotheticals. And, finance academics cannot defend the legitimacy of Ponzi assets (Google, Tesla, etc.) with observable and provable facts.

**IF THE SEC WANTS TO PROTECT INVESTORS,** they need to make the equity products positive-sum. Profitable companies like Google, Berkshire, and Amazon need to pay dividends. And, companies like Tesla, who are losing billions with no end in sight, should not be allowed to print stocks to keep their lights on. (TSLA shares outstanding have almost doubled since 2011.)

(NOTE: Share buybacks are a separate scam altogether. Amazon issued over 131 million shares since 2001. Google said they bought back 5 million shares in 2016—the same year their shares outstanding increased by 3 million, etc.)

This is just a fraction of what I revealed in my research (The Ponzi Factor), and as you can see, it is enough to debunk the fundamental ideas that support the existence of the stock market. Everything I shared is observable, self-evident, and grounded in history. The truth does not require many words…it’s the lies that demand elaboration.

True ideas do not disappear. It’s not a matter of “if” the SEC will have to deal with these fundamental issues, but “when.”

**Brokers and advisors cannot do their job if the products they sell are not positive-sum.**

Thank you for putting the epic meeting together. You've done something very unique and admirable, and it was an absolute honor to be a part of it.

Sincerely,

Tan Liu
Author | Technical Writer | Statistician
*The Ponzi Factor: The Simple Truth About Investment Profits*