Subject: Proposed Rule Change

File Number S7-14-19

Dear SEC,

Ladies and gentlemen. I was going to write a letter to you but read the one below from a friend of mine Jim Rivest which leaves little for me to add save the following.

I have managed, very successfully, an investment partnership with a 38 year audited record, called Santa Monica Partners LP www.smplp.com. We have a registered trade mark "STOCKS OVERLOOKED OR IGNORED BY OTHERWISE INTELLIGENT INVESTORS". We have been successfully investing in companies which are not registered with the SEC for decades, accumulating shares from brokers who willingly make markets in the shares of these companies which trade only periodically and are said to have thin markets and even to trade by appointment. Information is available to anyone willing to dig for it, work hard and diligently to obtain it and sometimes to sign an NDA to obtain audited financials from a company directly. The fact is never, once in my 60 year career as a professional investor have I failed to obtain at least audited annual financial statements. And at. times interim financials too. But I have found that interim financials are really unnecessary for a true investor who makes long term investments. I have made investments in companies which have grown from hundreds of thousands of dollars in market cap with only annual financials and very hard to accumulate shares to billions in market cap e g Balchem (BCPC) which the WSJ called the best stock you've never heard of it. https://blogs.wsj.com/moneybeat/2016/01/29/the-best-stock-over-the-last-30-years-youve-never-heard-of-it/

I actually have a less than $200 thousand investment which has become worth about $50 million and all I had when I was accumulating the shares was an annual financial report.

I had numerous similar investment experiences from A to Z. A for Adrian Steel which for years only provided an annual report, was NOT SEC registered and was a $7 stock when we began accumulating its shares. The company was not registered with the SEC when it went private at $380 a share 6 years ago.

If you need me to provide you with a whole lot of specific cases of inactively traded, BUT TRADED; stocks where companies, legitimate solid companies, providing only annual reports or no reports at all but by doing research and digging and snooping and research and analysis that a real security analyst is supposed to have learned to do by
e g counting trailers leaving a warehouse, speaking to employees, customers, competitors and suppliers as well as management so one can piece together what is going on in a company, then you should not imo require interim reports for a market maker to be allowed to transact for customers wanting to trade stocks unregistered with the SEC but which are some of the best companies and the best stocks in the world.

I would welcome being interviews by you as I have had to date a sixty year career of investing in companies and making long term successful investments over years and decades in hard-to get information types of companies. Where there is a will to get information there is a way IF THE ANALYST IS NOT A LAZY OR FOOLISH researcher, analyst or Investor.
.
Here is what my fried Mr Rivest wrote and I totally agree with:

The following are some quotes from the recent proposed rule change.

"The proposed amendments would prohibit broker-dealers from continuing to quote a security in the absence of current and publicly available information about the issuer."

"The Commission is proposing a new subparagraph (a)(1)(ii) to add a new requirement that the issuer information required to be reviewed must be current and publicly available."

"The proposed Rule would require that issuer information relied upon by a broker-dealer be current and publicly available in order for a broker-dealer to publish or submit a quotation for that security."

"This proposed amendment is intended to help retail investors by encouraging corporate insiders to make publicly available current information about the company."

"There were **3,211** issuers of quoted OTC securities in 2018 without current and publicly available information."

"The proposed amendments are intended to better protect retail investors from incidents of fraud and manipulation in OTC securities, particularly securities of issuers for which there is no or limited publicly available information."

"The proposed amendments would affect broker-dealers that publish or submit quotations for OTC securities."

"How might the proposal positively or negatively impact investor protection, the maintenance of a fair, orderly, and efficient OTC market?"

The proposed rule would be a disaster for investors who invest in legitimate OTC companies that provide little to no public information. There are hundreds of such companies that are often controlled by founding families, whose stocks trade very infrequently. If broker-dealers are no longer allowed to provide price quotes for such securities, then there are no investor protections, as there is no longer a fair, orderly, and efficient OTC market when price quotes are no longer available. It would be a terrible injustice to change the rules in such a manner, as investors would be left completely in the dark.

The proposal is a draconian solution to combatting the fraudulent and manipulative schemes targeting retail investors in valueless penny stocks. When buying OTC stocks, it is caveat emptor, so I understand why the SEC is trying to protect investors, but it is overkill to prohibit broker-dealers from providing stock quotes for hundreds of OTC stocks which are very good businesses. Among the OTC scammers and penny stock promoters are very legitimate 'dark' companies, which unfortunately provide little to no public financial information. And the proposed rule change will not make them change their ways, as these companies often prefer 'being underneath the radar'. So many would welcome the fact that their stock prices would no longer be quoted, as they would likely be one of the few buyers of their stock and likely at unfair lower prices. So taking such a broad approach would very badly hurt the shareholders in such companies.

It's not widely known, but some of the best risk-adjusted, market-beating, long-term performances come from investing in 'dark' thinly-traded OTC stocks. Researching and investing in such companies is more difficult than buying large liquid exchange traded stocks, but the rewards often make it worthwhile.

I think a few examples in my personal portfolio of bargain OTC stocks makes that case. Among my largest positions are 'dark' trade-by-appointment stocks that provide as little public information as possible. Vulcan International (VULC), DBM Global (DBMG) and Sonics & Materials (SIMA) were all tremendous bargains when purchased. They were literally worth many times what I paid for them, but I did have to go through the hassle of contacting the companies for their Annual Reports, and all 3 require proof of ownership and an NDA to be signed before sending their minority shareholders the company financials.

I believe all 3 companies would like nothing better than their stock prices to ***not*** be quoted. The SEC would actually be abetting the desire of these companies to 'hide the ball' by essentially eliminating trading is such securities, not to mention stranding the many investors who own such 'dark' OTC securities.

Historically, I don't believe there is any better risk/reward than finding and owning the hidden gems hiding in this OTC space, but that obviously would not be true if this SEC rule stopped the stock prices from being quoted.

Last year, the SEC had a roundtable discussion that addressed the market structure for thinly-traded *exchange-listed* securities. The roundtable discussed the challenges faced by participants in the market for thinly-traded *exchange-listed* securities and potential improvements that might be considered to the market structure for these securities.

Everyone on the panel acknowledged that small cap and microcap companies, which are often thinly traded, play an essential role in our economy. The SEC was interested in the views from a broad range of market participants in order to optimize the market structure for thinly-traded securities.

It was an all-day affair, with 3 panel roundtables and some of the heaviest hitters on Wall Street weighing in on how to better provide more liquidity in the small cap *exchange-listed* space. The transcript of that liquidity roundtable discussion was 237 pages long, so there was no shortage of ideas.

It was acknowledged that currently there is far less institutional stock-picking in the small cap arena because institutional investors care far more about a small caps' lack of liquidity. Money managers stated the quality of the companies took a back seat to how much the stock trades. So everything was on the table to make microcap *exchange-listed* stocks more tradeable, as everybody agreed that was the goal.

It's ironic that OTC stocks are not given the same consideration. In fact, it's the exact opposite if OTC companies don't provide timely financial information to the public. These stocks will then become virtually untradeable if this SEC proposal becomes law.

The foundational tenant of the SEC mission is to protect investors, including investors in dark OTC small caps. Many microcap companies had little choice and ceased filing with the SEC because it was just too expensive to remain public with no offsetting benefits. Retail shareholders often remain in these dark companies, but institutions usually hit the sell button. These companies often become 'trade-by-appointment' securities over time as most large investors lose interest. These companies often have small floats with large insider ownership, and that illiquidity often creates real bargains.

Professor Roger Ibbotson studied stock returns back to 1972 and updated it to 2015 and proved thinly-traded stocks beat highly liquid ones of equal market values. Ibbotson believed that liquidity is an actual "investment style" and is a far more effective predictor of returns than the more conventional factors. Specifically, the equities that produced the best returns during the period were less liquid small-caps that attract distinctively less trading interest. These companies generated a remarkable 18% annual return over four decades. He also believes that less liquid is less risky, which is not what most investors believe. Investors pay up for liquidity and popular stocks, which of course is reflected in future lower returns. With respect to illiquidity, the mother lode of such stocks are OTC-traded, as it's not rare to see some stocks trade just a few times a month or even just a few times a year.

So the lack of liquidity is a known factor to value investors in the 'dark' OTC space, but there is a huge difference between a stock that rarely trades and one that never trades. In the case of the 3 stocks mentioned above (VULC, DBMG, and SIMA), I patiently purchased my positions over a period of years. I provided liquidity to sellers of the stock who wanted out. It normally happened in small trades, but in the case of all 3, at some point large shareholders wanted out and I obliged them by buying what they were offering to sell. Without stock quotes, how will that happen in the future and how will a current portfolio of such stocks be valued?

There are 'real' companies in the OTC space and not just stock promoters and scammers. Sonics & Materials was an early pioneer in the radio frequency arena and holds many patents. They have also provided good paying jobs for many decades. The same can be said about DBM Global, as its the largest steel fabricator in the country, employing and providing thousands of Americans with very good paying jobs.

There are better ways to addressing this problem without creating a host of unintended consequences. Most companies 'go dark' because of the cost associated with being an SEC filer. Some small companies claim it can cost as much as a million dollars to satisfy all the SEC and listing requirements, which is a lot of money for small companies. Maybe a cheaper alternative could be provided. Instead of essentially eliminating trading in such securities by not allowing broker-dealers to provide quotes, how about <u>requiring</u> the companies to provide financials. Internally, all companies produce financials, but many are reluctant to share that information with their shareholders. If a company has shareholders, they must provide current financial information to those shareholders. This could be done easily and at low cost by posting it on their website.

We need more transparency and price discovery - not less!

Sincerely,

Lawrence J. Goldstein
[redacted]


Santa Monica Partners
***- Founded 1982 -***
*"Stocks Overlooked Or Ignored By Otherwise Intelligent Investors"®* and *"In niches there are riches"*

Lawrence J. Goldstein
President

SMP Asset Management LLC
1865 Palmer Avenue
Larchmont, New York, 10538
(914) 833-0875 - New York Office
[redacted]
Www.smplp.com