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To: Nancy M. Morris
Secretary, Securities and Exchange Commission
Sub: Comment on SEC's Proposed Rule to Change Accreditation Conditions (Ref: File No. S7-25-06)

The transportation secretary of the Republic was proud of its great freeway system. Everyone loved to drive on the wide-open lanes. Other nations envied those autobahns. But there was a problem. Sometimes, there were accidents. People would get hurt and would be taken to hospitals. Hospitalization was expensive. Poor people of the Republic could not afford. So someone came up with an idea, "How can we prevent poor people from getting into accidents and hospitalized? What if we prevented those economically disadvantaged folks from getting on the freeways in the first place?" Thus came the proposal from the transportation ministry to allow only the Rich people to drive on the Republic's pristine freeways.

Were the poor folks upset? You bet. It was with their tax money that those freeways were built. How could they commute to work? By taking buses, which were slow and infrequent? Fortunately, the poor people had a sympathetic ear with Congressia, who was the Queen of the Republic. The Queen asked the transportation ministry to fix the real problem. How would they prevent accidents from happening? The transportation secretary figured out ways to avoid most of the accidents by putting speed limits, warning drivers of bad weather, and preaching safe driving practices. Guess what, when accident rates dropped dramatically, everyone, rich and poor, benefited.

The new proposed rule by SEC (File No. S7-25-06) redefines accredited investor as someone with at least $2.5 million in investments. In effect, that bars a majority of current accredited investors from participating in the private investment funds. This is a wrong fix.

How does barring economically less successful investors from participation make investments safer for everyone? What is, or should be your goal? Make hedge funds safer against fraudulent activities and excessive, harmful deviations from stated strategies. Your rule will not accomplish that.

You have 20 years of data of investment results from thousands of funds and several thousand investors. Do you see any correlation between an investor's net worth and likelihood of poor performance? We doubt it. Most of the investors at the troubled funds from Long Term Capital and Amaranth were huge fund-of-funds, institutions and super high net worth investors. Your new rule for accreditation will not do any good to prevent such fiascos.

Being a state-registered investment adviser, all limited partners in our small fund are qualified clients having net worth above $1.5 million but some of them would not qualify with new rules. That would shrink our asset base and make the fund more expensive for every one. Your new rules 509 and 216 will put most small investment vehicles at a big disadvantage.

Hundreds of small fund managers have put a lot of efforts and resources to become registered investment advisers. There are already enough rules and regulations. In light of these considerations, you are urged to stop putting new burdens.

Consider the case of two investors. Steve is an engineer with $600K in assets and Larry is a professional athlete with assets of $15 million. Steve is analytical, he reads business magazines, researches stocks and invests with an online broker. Larry has no time for all that. Who do you think is a more sophisticated investor? Is it correct to assume that those who have more money are smarter in judging investments? No. You will find very rich professionals in various fields, who lack investing knowledge.

If you raise the limit for accreditation, it will unnecessarily prevent thousands of smart investors from potential benefits of a well-managed private investment fund. You need to address the real problem. How do you prevent fraud and how do you make sure that the fund manager understands and acts in accordance with his / her fiduciary responsibilities?

In summary, the proposed rules to change accreditation conditions are unnecessary. It is doubtful that they will accomplish anything good and it is certain that they will be harmful to both investors and funds. Hence you are requested to abandon in entirety the idea of raising accreditation limit or making accreditation more restrictive.

24 February, 2007