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Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-5041

Re: File No. S7-25-06; Release No. 33-8766; IA-2576
Accredited Investors in Certain Private Investment Vehicles

Cedar Hill Associates, Inc. is pleased to submit this comment letter in connection with proposed new rules 216 and 509 under the Securities Act of 1933 (“Securities Act”).

Our firm, founded in 1984, is a registered investment advisor with \$800 million of assets under management. Our clients are high net worth families, many of whom have benefited by strategically investing in hedge funds (including hedge fund of funds), private equity, real estate, energy, and limited partnerships as part of their portfolios.


We applaud the Securities and Exchange Commission’s (“Commission”) antifraud rules and agree as proposed. We believe the proposed regulations redefining “accredited investors”, however, unnecessarily limit the opportunities for sophisticated investors to participate in private investments. We believe any changes to the definition of an accredited investor should consider the following:

1. If the Commission alters the definition of accredited investor, all individuals currently invested in private investment partnerships should be grand-fathered and permitted to add capital to existing investments and invest in new private opportunities. Investors, alone or in concert with advisors, have created customized asset allocation strategies that may require additional contributions to existing private partnerships or participate in new private offerings. Proposed rules limit an investor’s ability to implement the strategies and achieve their objectives, even though they are keenly aware of the risks involved. Should these individuals become ineligible because their personal wealth and knowledge base has not changed? Arbitrary financial hurdles that define sophisticated investors should not outweigh actual experience in alternative investments.
2. Current accredited investor levels should be maintained and adjusted for inflation going forward. We concur with the Commission’s view that investment strategies are more complex today than 1982, but we do not believe reducing the percentage of eligible households to the 1982 level is warranted. A greater proportion of the investing public is more sophisticated about investments today with the dramatic improvements in the availability, timeliness, and depth of financial information. Additionally, fund managers have greatly enhanced risk management capabilities today.

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3. The income test and current rules should be retained. Despite substantial earnings, younger investors may not have the higher net worth required to meet the proposed rules. The removal of an income test in the determination of “accredited investor” adversely affects those with long term investing horizons.
 4. Proposed regulation would be more consistent by allowing Private Equity to have the same exclusion as proposed for Venture Capital. The proposals discuss the importance of Venture Capital Pools in providing capital and managerial assistance to small businesses. Private Equity funds perform a vital role to companies past the start-up phase. To survive, these firms need additional capital to achieve critical mass. It appears incongruous to raise the bar for accredited, sophisticated investors, while providing an exclusion for arguably the riskiest alternative investment strategy.
 5. Fund of Funds warrant a lower monetary threshold than direct private investments. Sophisticated financial intermediaries manage these investment vehicles and risk mitigation is accomplished through underlying fund diversification. Fund of Funds have professional advisors responsible for strategy, manager selection, and monitoring of investment processes. By their nature, Fund of Funds promote diversification and provide a more conservative investment approach than single strategy funds; regulations should be designed to reflect risk levels incurred.
 6. Accreditation standard should incorporate certain real estate. Will an individual be considered “accredited” if investment assets as opposed to a primary residence are in real estate? It appears that under the new guidelines an individual with substantial real estate investment properties would not be considered “accredited”. We believe real estate investments, exclusive of primary residence, should be included in the definition of investment assets under the new guidelines.

We appreciate the Commission’s efforts and, in particular, the candor of discussion promulgated in the proposed rule changes. We welcome the opportunity to share our views.

Sincerely,



Joel H. Jastromb
Chairman/Chief Investment Officer
JHJ: ms