U.S. Securities and Exchange Commission

Washington D.C. 20549

RE: File No. S7-31-08 AND File No. S7-30-08

Dear Mr. Chairman and associated staff:

Per the hedge fund managers in their congressional hearing this week, they are “very proud” of what their employees create in terms of often false realities and analyses for the companies they invest in (go long) or take out (go short). In fact, in watching the testimony, I had the very distinct feeling that these hedge fund executives feel they are performing some sort of public service by taking companies out in large shorting moves, opening up any closets with skeletons, per se. I feel very certain that in investigating the analysts at these firms and their management, you will find a clear management motive for the analysts to create excuses for any negative outlook on a target company. They know the SEC is breathing down their necks, so they will certainly have available for you, any number of reasons for their short moves. What you need to investigate further is their repurchase of shares in those very entities just days before and/or after they disliked them so avidly. This scenario is truly equivalent to a teen-age love affair.

Nevertheless, actual investigation into the activities of these funds will prove their outright market manipulation. It is clear by studying the charts of just about any company since the uptick rule was removed that the game plan of these funds is to “prop up” a stock for a few days, and then take it down in dramatic short moves, and then prop it up again for a few days, before taking it down again. They do this between themselves and their affiliate funds over and over until there is nothing left of their original target but a corpse. It is clear they are buying large positions in market moving chunks over a period of a few days in their “prop” phase. Then, as the stocks begin “performing”, the innocent bystanders (average investors) buy into these shares thinking they have really guaranteed themselves a good deal on a good company which still has good fundamentals. The hedge funds stand by and watch and when the volume of buy-ins begin to fall off, the hedge funds quickly sell out of their short term ‘long’ positions (long defined here as recently purchased-usually in the 3-5 day time frame of original purchase) securing their gain on the upward move. As they sell to take their gains, they create a downward motion in the stock which is right about the time they, or their affiliated funds, swoop in and start their short side, once, of course, they have secured their target’s credit default swaps. Don’t we all wish we had control of billions of dollars to move a company’s market capitalization whatever direction we feel like that day? Most of us don’t however, and we have been murdered in this game. Ironically, had the SEC known the disastrous financial scenario we were headed for, in large part exacerbated by the activities of these very powerful hedge funds, I am most certain you would not have removed the uptick rule in the first place! It was the only modicum of restraint upon the ravenous short sellers, particularly in uncertain times. The very sad fact of the matter is that the removal of that rule could not have come at a worse time. The consequence has been an abomination to the wealth of this country and good hard-working people who just wanted to secure the futures of themselves and their families.
If what the hedge funds say is true about their ‘legitimate’ analyses of these companies, and I think we all know that it isn’t, then the hedge funds wouldn’t mind complying with the following proposed “ten/ten market day rule”:

“Any market participant shall not be allowed to take a short position in a company, if said market participant or related affiliates, if any, has purchased common or preferred stock of that company, or secured a credit default swap of that company, within the prior ten market days. Furthermore, any market participant will be prohibited from purchasing common or preferred stock of a company, if in the ten market days prior to said purchase, the market participant or any of its affiliates have initiated or maintained a short position in the company or have secured a credit default swap in the company. Violations of the ten/ten market day rule shall be punishable by a fine of 10 times the gain or loss avoided or secured.”

The rule above should amend and supplement your interim rule on Hard T+3 delivery requirement and is proposed to amend your disclosure of short positions interim rule. The disclosure rule and Form SH, in particular, is clearly not cognizant of how quickly these operations are working and is only bureaucratic in intent and result. The above proposed rule would, in fact, require a unilateral form to be implemented, a FORM SH and Form 13f combined in information and intent, with clear rules on affiliations of funds who rely on identical research departments. I would propose a step further in requiring explanations of why any given financial management firm would have both a long and short position in any 13f company.

Furthermore, any disclosure rulemakings should utilize advanced technologies and should be fashioned in a centralized database downloadable from these financial institutions. If you are going to impart the burden of producing and receiving information, it should be received as quickly as the transactions are occurring. The technology is there. Not to mention the following: 1.) you have removed the intraday reporting requirements from the form SH; 2.) you are not requiring short positions to be reported if there is no net change from the prior week; 3.) you are not clearly defining whether positions across accounts (and funds) are to be netted; and, 4.) the de minimus requirement entirely misses the fact that aggregately, these fund managers, who are excellent ‘copy-cats’ of one another, have a huge effect on the daily market capitalization of any given 13f company. Why are all of these factors being removed or missed entirely? Is it that you do not know what you need to be looking for? Again, this market manipulation is occurring sometimes in a day’s trading hours, sometimes over a few days. The firms reporting the information are surely ‘restaging’ at the end of each day and week, ultimately leading to the recent ‘phenomenon’ of the 2-3 pm (EST) bullish hour and the 3-4 pm (EST) bearish hour not to mention the incessant volatility in the market! You need a centralized downloadable watchdog system as described by Dick Fuld in his congressional testimony weeks ago. It should be paid for by market participants on a pro-rata basis related to annual volume. If not, you need to require information that will depict a truer picture of the market manipulation that is occurring. We need good information in order to propose and enact good rules.

We need to remember why we allow short selling in our markets in the first place. In and of their very nature, they are counterintuitive to the market’s growth potential. However, if we are going to allow
them, then they need to be restricted to their original purpose so many decades ago. Do we remember what that was? To implement a measure to depict a declining nature of a stock or industrial sector! Not by any means was short selling implemented to allow for market manipulation such as this. If you have a short position, you are saying you don’t believe the stock price is a value for the business at hand. Why then, if this is your belief, does your right hand not follow what your left hand is doing? Why are you allowing someone to be both short and long at the same time and not calling it manipulation?

The market manipulators will come begging at your feet to just reinstate the uptick rule. The screams and moans you will hear from this proposal will prove their intent to manipulate equity stakes in publicly traded companies. More importantly, however, will be the re-stabilization of the marketplace that will occur once implemented.

I have been one of the many phone calls to your office, Mr. Chairman, screaming for some control over the hedge funds. Our screams have fallen onto deaf ears, in your effort to protect people who are only making the wealthy wealthier at the expense of millions of regular people not to mention the destruction of American capitalism for everyone. What do I mean by that? I mean that we are watching capitalism at its worst – what capitalism becomes when the mighty and powerful have free reign and the small person has no influence. This is the ugly side of capitalism that we need government to manage so that the good side of capitalism is not taken from us. Our next administration is going to be even more challenging, with ideals of socialism reigning through. We can put good rules into place to stave off those who wish to de-capitalize our society, no pun intended. With earnest plea, implement the rule above in addition to the interim rules as proposed and do so quickly, before any more is lost.

Regards,

Deborah Mathis