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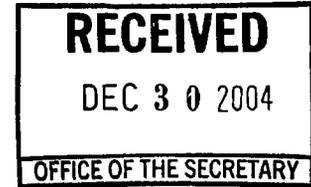
Caldwell Asset Management Inc.

Independent Investment Managers

S7-10-04

December 20, 2004

The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W., Room 6100
Washington, DC
20549-0609



Dear Chairman Donaldson,

The SEC's National Market System ("NMS") proposals, establishing a Consolidated Limit Order Book ("CLOB") would result in undermining the competitive attributes of each market environment, thus affecting innovation, efficiencies, new products, growth and eventually, America's position as a financial leader.

Stock Exchanges are in the business of providing: 1) Price discovery, 2) Liquidity and 3) Information. Nothing is more relevant to the smooth functioning of capital markets than these three factors. Stock markets are really a combination of eBay and Google.

It is an acknowledged fact that an "auction" market, wherein all buyers and sellers come together, narrows spreads, lowers volatility and raises liquidity. It is the most accurate determinant of a stock's value. That is what is currently being provided by the New York Stock Exchange ("NYSE"). This "price discovery" mechanism, as currently constituted



on the floor of the NYSE, is vastly superior to an all-electronic system, wherein displayed markets thin out and become vulnerable to price manipulation in order to transact large “upstairs” trades.

Dealer-only markets also restrict the quotes that can be shown to whatever the dealer wishes to display. There is not an accurate, direct or clear “price discovery” process whereby the client can show whatever price they wish. The NYSE has this.

Speed is now being considered as an important trading ingredient, to the point of potentially excluding that “best price” for clients, as the key requirement for a successful transaction. The NYSE has set out to accommodate this demand from its customers/competitors with its proposed Hybrid Market.

The proposal by the SEC to require exchanges to route orders to all market centers at all price points would establish the equivalent of a CLOB. This measure would remove any real competitive difference from the stock exchange landscape, short of bribes for order flow. This SEC proposal seriously undermines the extremely positive Hybrid initiative by the NYSE.

When markets change dramatically, liquidity is always problematic in a dealer only or purely electronic environment. It is a fact that the Specialist operating on the NYSE floor



smooths out volatility and adds to liquidity, particularly when news of corporate or economic change is announced.

The SEC requirement of the defacto CLOB to show the size of orders behind the published inside quotes can be highly destructive to liquidity, as size usually scares away bids or offerings. One should never discount the value of a professional trader “working” an order, as finesse is an important ingredient for all trading. Benefits then occur not only to the client wishing to transact large orders, but also to those existing shareholders who are not forced to endure wild price gyrations.

The pressure on the current system appears to come from constituencies which are in clear conflict of interest. Some large institutions, seeking to undo a system that is innovating and changing to provide even better service, own parts of competing trading systems to the NYSE. Establishing a CLOB would enable them to more easily internalize trades, taking them off of an Exchange altogether and as a result undermining both the “price discovery” mechanism as well as overall market liquidity.

Legislators and regulators should never confuse the interests of large financial institutions with those of individual investors. Institutions prefer to have individuals investing through their own in-house offerings or funds to the exclusion of individual security purchase and sales.



The NYSE has made errors in the past and has had their share of rotten apples but this organization has provided an excellent overall product for investors over the years and is responding to the needs of the future.

America has lost world leadership in many sectors. The financial services industry remains a point of strength, but this position is not unassailable.

Establishing a monolithic government CLOB would, in effect, reduce America's equity markets to the lowest common denominator. Other economies are accumulating capital and market mechanisms need to innovate, change and function as aggressive, competing businesses to ensure survival, let alone maintain America's leadership.

History has many examples of financial markets that have withered as a result of too much legislative and/or regulatory tinkering.

Competition is, and always will be, the best regulator.

Yours truly,

Thomas S. Caldwell
Chairman
NYSE Member/Lessor

cc: Commissioner Cynthia A. Glassman, Commissioner Harvey J. Goldschmid,
Commissioner Paul S. Atkins, Commissioner Roel C. Campos