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P.O. 750471, Forest Hills, NY 11375-0471/ 718-896-5060 / Fax 718-896-5326 / contact@investrend.com

June 17, 2005

Mr. Jonathan G. Katz
Secretary, U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Re: **Prepared Testimony to the SEC Advisory Committee on Smaller Public Companies File No. 265-23**

Dear Mr. Katz, Mr. LaPorte, and Advisory Committee Members:

Thank you for inviting me to elaborate on the written comments submitted May 24, and to answer any questions you may pose.

I hope it is self-evident to the committee that the proposals we have been advocating for standards of transparency, credentialing, conflict-reduction, equal distribution and research conduct are the antithesis to our purely "business interests." We are surrounded in our industry by promoters and so-called "research providers" that are producing substantial revenues and profits for their owners and shareholders by shunning ethical practices.

Therefore, our advocacy, rather than being self-serving, is quite the opposite, and predicated on long-term opportunities that might exist if there were an ethical playing field and if the public continues to respect the shareholder empowerment platforms we produce.

We agree that the road to liquidity and capital-raising ability for smaller public companies rests on analyst coverage, which after all, is simply an informed proxy for individual and institutional investors.

However, that coverage must be believable, free of conflict, transparent and professional.

Ten years ago Investrend Research established a model which remains the standard today. Investrend Research does not produce research. Investrend has no clients, and provides no services to a company.

A company enrolls ON BEHALF OF ITS SHAREHOLDERS, and pays Investrend an enrollment fee. Investrend Research then facilitates the assignment of an analyst from a pool of around 70 that are pre-qualified. The analyst and the company then work thru the research product, after which the analyst signs off on the report and submits it to the Investrend Research Syndicate, which then publishes it to the largest possible distribution base to insure equal and full access to all classes of investor.

The analyst is paid in advance for his/her initial report by Investrend and not the company to eliminate any connection between the fees and the analyst, the analyst may not own or trade in the shares of a company under coverage, and neither may officers of Investrend. Investrend has adopted the CFAI-NIRI "Analyst-Issuer Guidelines" and more importantly and exacting, the "Standards For Independent Research Providers," promulgated by the FIRST Research Consortium.

We have held public hearings and received public comments over our procedures, and each of some 800 reports have had a statement inviting submissions of any ideas for better procedures.

In the period between our May 24 comments and today's testimony, two new enterprises have emerged with some hoopla. Both have been invited to adopt the "Standards for Independent Research Providers." One did not respond. We are engaging in discussions with the other. However, neither have proposed anything new or superior to the practices now in effect, or even in effect for the past decade, and neither have put forth any proposal that has as its basis anything other than "the company pays" for the research.

We remain poised and ready to work with any group or entity, including your committee, to develop a different or more creative model to pay for the cost of coverage, including ideas we submitted in writing.

We have not clearly formulated our attitude towards an Exchange engaging in a for-profit enterprise to provide investment recommendations on its own listees, or whether that is a conflict; but that book should not be fully closed until evaluated by the community.

If there were going to be a serious effort to provide alternative funding for research coverage for companies listed on a particular exchange, we would have gravitated towards part or all being paid out of listing fees with such an exchange, to insure that investors have negative research as well as positive research available; but it appears at least one exchange sees this as a revenues generator rather than as an investor service.

However paid-for, distribution is key to investor attention. If smaller investors as well as institutional investors can not have equal and timely access to published research, then any system is flawed. Today, although having our own FinancialWire distribution channels, to reach the disclosure points, the Investrend Research Syndicate uses paid press release distributions.

However, some press release services do not allow tickerization unless sourced by the company, due to what appears to be an overriding policy instituted by Yahoo to keep third party promotions and pump-and-dump campaigns off its site. At least one press release service will not even discuss or disclose its policy, which appears to be "all over the place." The sourcing by the company does not suit the "Standards" since it provides a covered company with a veto over a negative report or update. We would work with any group to help Yahoo and the legitimate press release services establish a policy that achieves the distribution "Standard."

Distribution to one class of investor and then passing along a headline regarding a recommendation or rating to the public without the disclosure and access to the full report is a form of institutionalized "pump and dump," and should no longer be tolerated.

A word about "Standards." We have long advocated to the CFA Institute and the National Investor Relations Institute that it is a fatal conflict to allow analysts to hold a stake in their ratings, so far without a great deal of success. New York Attorney General Eliot Spitzer does not see this as a problem, he recently told me in a private conversation, "because many institutions ban their analysts from holding stock in companies they cover," to which I responded, "doesn't that make the case why it should be banned altogether?"

The "Standards for Independent Research Providers" prohibit this practice, but to completely engender confidence in the analyst profession, this needs to be addressed on an industry-wide basis.

Finally, we need to discuss the proliferation of questionable "research profiles," "reports" and "analyst comments" that confuse investors and the marketplace. And even some otherwise legitimate research providers take stock for their coverages, making substantive amounts if their "coverages" result in price appreciation, fail to provide any information about analyst credentials, take advantage of the SEC loophole that seems not to require the real person payers behind promotions to be absolutely identified under Regulation 17(b), take advantage of 17(b) loopholes that let companies issue the reports without any disclosures as to payments, use spam emails and junkfaxes,

Stock should not be used to pay for promotions, directly or indirectly, since that is essentially using shareholder resources in a way that is at odds with shareholders' interests.

However, stock pooled in a central repository or sold prior to the institution of coverage should be explored as an alternative means by which shareholders might pay for a service for which shareholder value is the objective.

We thank you for this opportunity, and again hope that our comments will be helpful to the Committee.

Sincerely,

Gayle Essary
Managing Director, Investrend Research (http://www.investrendresearch.com)
CEO, Investrend Communications, Inc. (http://www.investrend.com)