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July 21, 2008

CHAIRMAN'S  
CORRESPONDENCE UNIT

The Honorable Christopher Cox  
Chairman  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Dear Chairman Cox:

I write this letter for a few reasons. First of all, it finally seems apparent that the SEC has awakened to the obvious problems to our markets of inappropriate short selling. Secondly, I have been actively engaged with the securities markets for 52 years and, hence, believe I am knowledgeable on this subject. Hopefully, you and your fellow commissioners will respond positively to what is suggested. As a starter I thought it would be helpful if you briefly knew my background.

1. I started at Wertheim & Co. in 1956. I served as its chairman for fifteen years until the firm was sold to the English merchant bank, Schroders in 1986.
2. I became a Vice-Chairman of Wertheim Schroders for three years.
3. I founded the investment advisory firm Klingenstein, Fields & Co., L.L.C. in 1989 and continue today to function as its chairman.

Our markets have changed their character dramatically over the past decade. The long term investor is almost a thing of the past. Today hedge funds and program trading account for 80-90% of daily activity. Hedge funds manage almost two trillion dollars. These people are short term focused. Add to this the large amount of assets that do not pay taxes and you can understand our markets' increased volatility. This is especially so when you realize that the hedge fund world is taking a tax advantaged 20% of profits.

I have never understood why the short sale rule was changed to allow sales on down ticks. This clearly aggravates the problem of volatility and provides opportunities for people to collude in trying to drive stocks lower. The simple fix is to go back to the old standard of only selling short on an uptick. Do it now. The new rule applicable to not selling short without prior arrangements to borrow stock to cover such short sales should apply to all companies all the time, not just nineteen.

Hopefully, this has been helpful and will encourage you to act positively and promptly on these suggestions.

Sincerely yours,

Frederick A. Klingenstein

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