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Nancy W. Morris, Secretary
Securities and Exchange Commission
Comments on Proposed Rule:
Amendments to Regulation SHO
File # S7-12-06

September 11, 2006

"A Picture is Worth a Thousand Words"

To all concerned,

I have 39 years work as a quantitative analyst and security advisor. Barron's once called me "a full blown statistical junkie". With considerable market experience, I feel justified to contribute this letter hopefully give others a somewhat unique input into the SHO situation. I first felt the rule would be a welcome one, but in studying the rule further in the past two years, in an attempt to figure out what has changed to short sale behavior so dramatically since 2003, I now believe otherwise.

The research graphs presented as #1 and #2, use data from NYSE weekly short sale releases (Total short sales, member short sales, public short sales and specialist short sales). The research has been kept largely confidential. This model, named "Investor Apathy", was some of the most accurate research I found at denoting important market bottoms, or too high investor skepticism, from 1980 to 2002

Graph #1 shows the period from 1980 through 1/1/2002 so that a closer study of trend peaks and behavior can be clearly matched up with market behavior. During this period, short sales could only be given permission and effected after stock was actually borrowed to deliver against the short sale. The important investor apathy peaks all tended to coincide with very bearish periods where many stocks were difficult to borrow, or stocks were listed on "restricted short sale" lists. My conclusion was that bear market bottoms, or periods of very high investor skepticism, saw certain stocks shorted close to the maximum extent they could be "borrowed" to short and this could be useful as a market indicator.

Graph #2 importantly shows the complete period from 1/1/1980 to 9/1/2006 of this "investor apathy" trend, consisting of date formulated from only weekly NYSE short sales date. Note importantly, that starting in late 2003, this trend went above historical peak highs (In fact, going all the way back to 1/1/1970). The exaggerated move higher from late 2003 in this trend should serve to alert analysts that something had starting affecting short sale behavior from 2004 forward in a grossly exaggerated manner. It would seem that an analyst or regulator becoming aware of this would want to know why, and what were the causes of this. My conclusion, being familiar with the historical changes in this data made an important observation. Where is the stock coming from to be delivered against this extreme increase in short sales, whether on the NYSE or elsewhere. The numbers very likely don't really support that there is enough stock out there to be borrowed to deliver against this huge increase in short sales. Studying the situation further, the data reveals that NYSE "member" short sales roughly increased three to four times the percentage seen in the 2000-2001 period lows, a few years earlier. During the same period, "NYSE "Public" short sales increased by only about one-third.

This raises an important question as to why member short sales increased so much more than public short sales. It also implies that member firms have some reason to be shorting so much more stock than the public numbers , which should include many hedge funds. From a professional standpoint, I believe congress and various regulators should inaugurate an "independent investigation" of trading activity in the short sale area in order to ascertain the cause and effect of dramatic short sales increases since 2004, a period where SHO was put into effect, and also determine how much of the adopted SHO rule change formulation was from interested parties, such as NYSE "member" firms. I believe this investigation should be "independent", have full authority to audit the various NYSE short seller categories noted above, and importantly ascertain whether "naked" short sales are taking place to facilitate this behavior. What is my recommendation? Very easy, return to the previous short sale rules that mandated strict borrowing requirements and strict settlement dates, the same as "regular way" settlement that the investing public has to meet. Lastly, investigate the manner that marketmakers, options market makers, and specialist exemptions are being used that may affect this situation.

I am submitting this information, so that a brief study of the enclosed graph #1 and graph #2 will show others the dramatically changed short sale situation since 2004, contemplate deeper what may be causing it and how, and insure that individual investors and others are not being unfairly treated by the new short sale behavior. If abuse surfaces upon investigation, please find some honest individuals that can do something about it.

Sincerely,

Ray Hines

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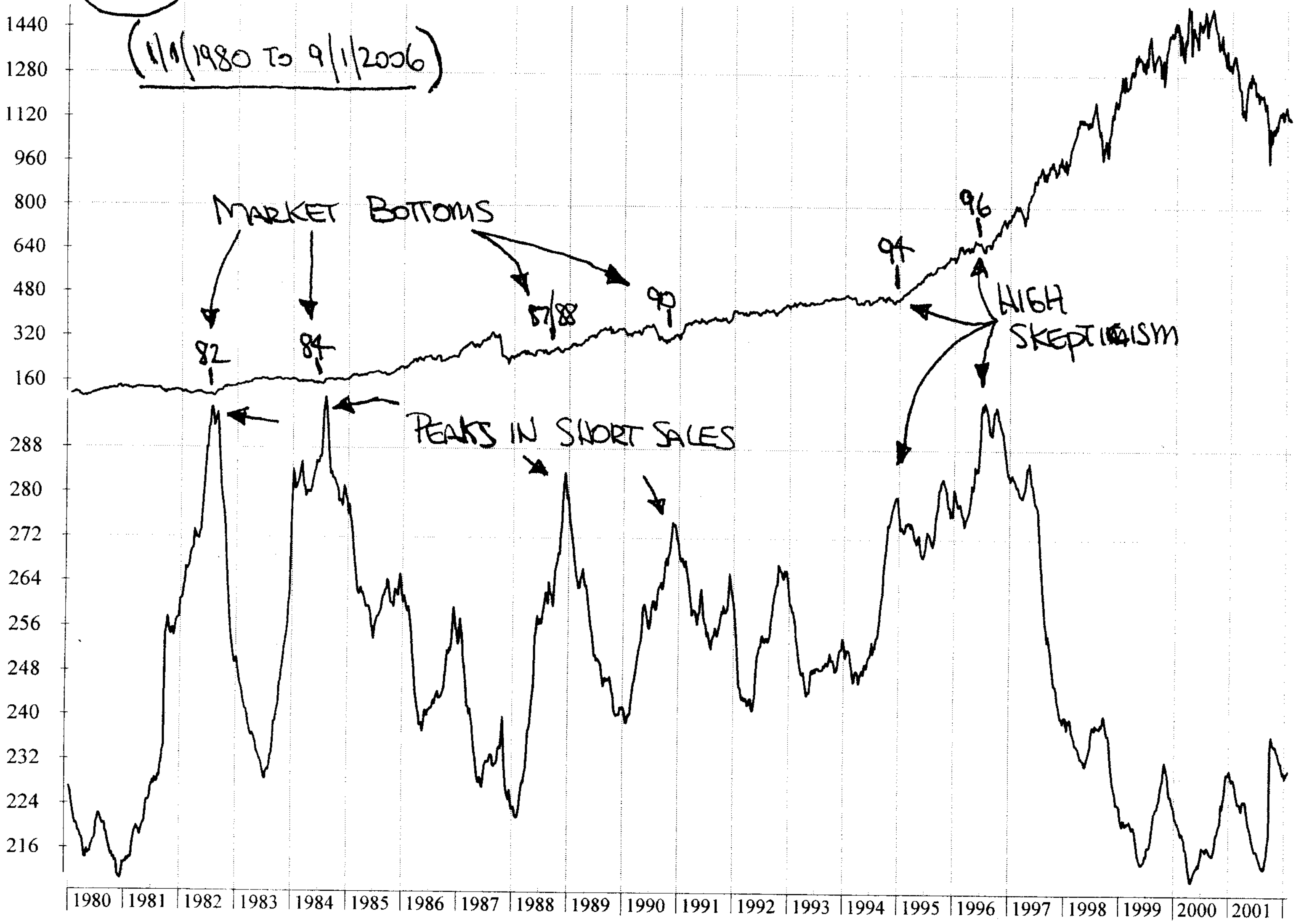
c/c Selected congressmen, regulators, and others

#1

S&P 500 vs Apathy -- Measures Investor Apathy Towards Stocks



- APATHY MODELS USE <u>ONLY</u> NYSE "SHORT SALE" DATA TO PRODUCE OPTIMIZED TRENDS OF SHORT SALES.
- PEAKS (APATHY TREND, LOWERCLIP) OCCUR AND CAUSED BY <u>EXCESSIVE</u> SHORT SALES, THEN TREND TURNS LOWER WHEN THEY START TO BE COVERED
- MEMBER (EXCLUDING SPECALIST) SHORT SALES <u>HAVE TRIPLED</u> SINCE 1997-2001
- PUBLIC SHORT SALES HAVE INCREASED ONE-THIRD (ONLY) SINCE 1997-2001
- NYSE MEMBER FIRMS <u>DOMINATE</u> GROWTH IN SHORT SALES SINCE 2001-2002 LOWS.

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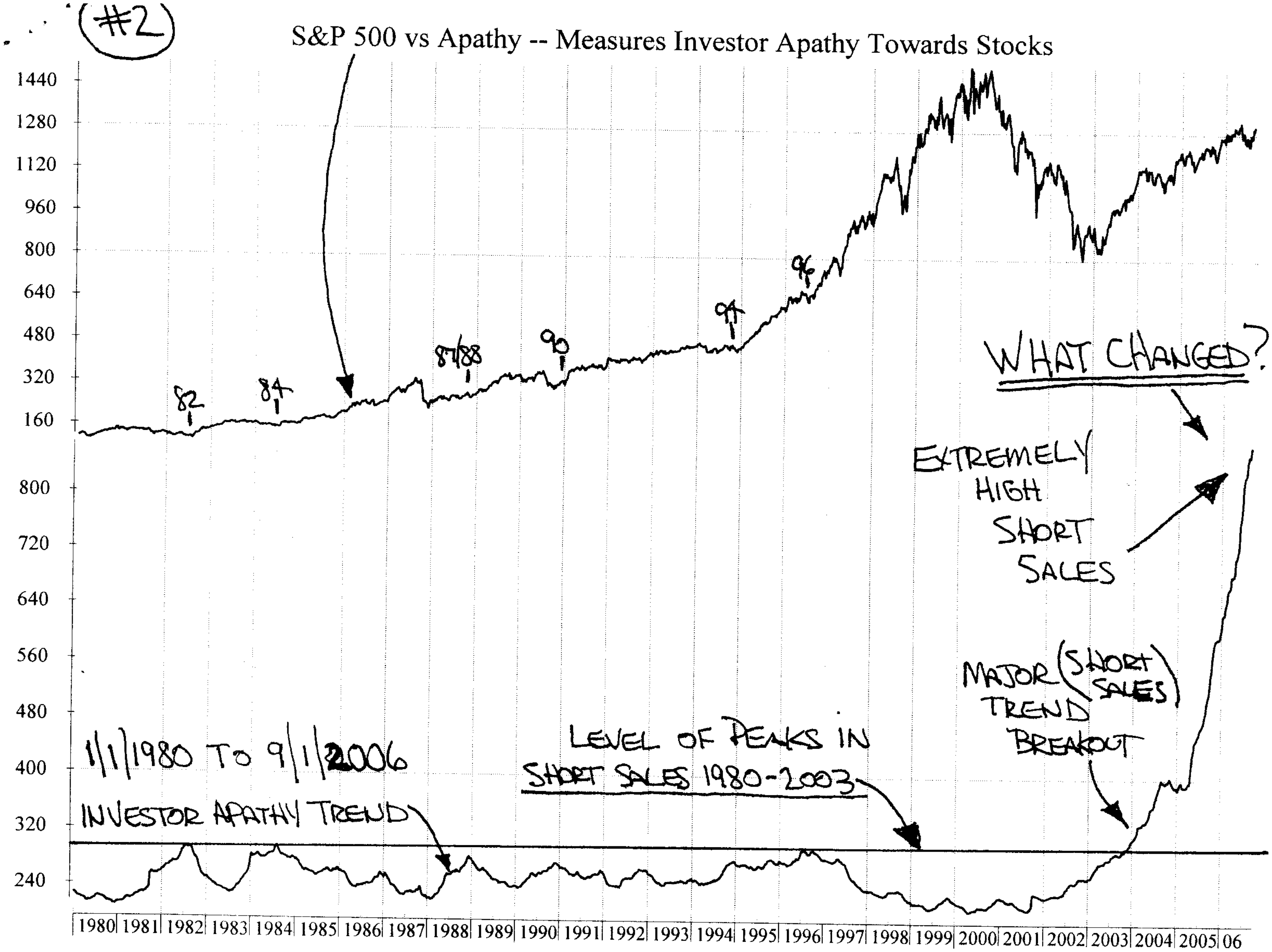
(#2)



COMPLETE HISTORY 1/1/1980 - 9/1/2006

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