

April 11, 2009

Mary Schapiro, SEC Commissioner
Kathleen Casey, SEC Commissioner
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Washington DC, 20549

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Dear Commissioners,

You are currently having hearing regarding short selling. I would love to come to one of your hearing, but, since I live in San Diego, that would be a little difficult. Let me say that I am very interested in the rules regarding short selling. I have been an active investor in the stock market for more than 40 years. I have worked for a decade in finance as a Certified Financial Planner and held NASD 7 & 65 licenses and have an MBA. I believe in our free market system, and I believe strongly in protecting it from abuses.

The advantages of short selling are few, if any, and these advantages are only for the few. The disadvantages are large and affect the millions of small investors with 401 Ks.

What advantages does America get from short selling? According to the short sellers, they discover overvalued companies. Well, if a company is overvalued the regular stock market action is going to take care of that. We don't need short sellers.

The disadvantages of short selling are several. One is that short selling can accelerate the demise of a company as happened with Bear Stearns and Lehman Brothers and would undoubtedly have happened to more companies if short selling hadn't been suspended. If a person or small group of organizations (e.g., Hedge Funds) that control a lot of money decides to go after a company such as Lehman Brothers they can. A downward price trend can be accelerated by their short selling which will then instigate negative rumors about the companies. The companies' credit ratings will drop which will increase their borrowing costs or even make borrowing impossible which will in turn make the stock price drop lower.

It's similar to a run on a bank. Let's say some Hedge Funds know a bank has only 10% of its deposits in the form of cash and normal withdrawals are 5%. Then if it has deposits in the bank of 6% and demands all its deposits in cash during a single day, it can drain the bank of cash and create a disaster. Nothing is fundamentally wrong with the bank. These Hedge Funds have just exploited a weak point. The same is true of short selling. Lehman Brothers value didn't really drop in a day. Hedge Funds exploited a weakness with massive amounts of money in short selling. Furthermore, I suspect there was collusion between short sellers (difficult to prove, of course).

The absolutely insane decision to remove the uptick rule contributed mightily to the ability of short sellers to ruin Lehman Brothers. There was absolutely no restraint on their ability to gang up on Lehman and succeed with their self fulfilling prophecy.

What should the SEC do? Here are some ideas:

1. Uptick rule

Reinstate the uptick rule. Furthermore require that the last uptick trade be the size of the last short sell trade. In other words, if 1,000 shares are sold short, then 1,000 shares must trade up before the next short sell. One way to negate the uptick rule would be for Hedge Fund A to short 10,000 shares and Hedge Fund B to buy 10 shares for an uptick and just keep repeating this process. Therefore, you should balance uptick and short sell volume.

2. **Make all short sellers actions public**

Identify all short sellers by company and by agent. This should make it easier to spot collusion. While I would not make uptick buyer's identity public, I would make sure that the SEC knows their identity.

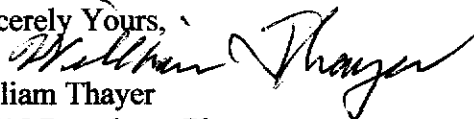
3. **Make it a specific crime for collusion between short selling groups and short sellers and uptick buyers.** Intuitively, you know this has happened. It is a market abuse. The 401 K people are paying the price for this abuse.

4. Suspend short selling in a stock if it drops 10%

I believe this is one of your proposals, and I heartily support it.

5. Require that all short sellers have a specific license to do short selling and report all short selling to the SEC. Make them pass a test in which they must answer questions on collusion and other short selling abuses (just like we do for the NASD 7).

Sincerely Yours,



William Thayer

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P.S. I believe we need further regulation of Hedge Funds and Credit Default Swaps which I will describe to you in a further letter.