The Honorable Philip W. Buchen
Counsel to the President
The White House
Washington, D. C. 20500

Dear Mr. Buchen:

In yesterday's economic address to the Nation, I was perversely gratified to hear President Ford refer to the capital markets of our country as being in "a state of disarray". This, to my knowledge, is the first time in recent history that a governmental official has acknowledged the true state of the U. S. capital markets. To go one step further, I would classify the state of our markets as "a shambles".

Allowing for the fact that Washington now seems to realize Wall Street's plight, it seems inconceivable to me that the SEC's ongoing drive to implement fully negotiated commissions should be allowed to be continued. Attrition in the recent past has already caused many marginal firms to close and doubtless many others will shut their doors before year-end. This in itself may not be considered a complete disaster since many of these firms had very little economic viability and were not needed by the public or the financial community. However, if the surviving firms, faced with the task of raising gigantic amounts of capital for the country over the next decade are not allowed to prosper under a reasonable regulatory environment, the system as we know it will fail.

As regards, the controversy between the SEC and their insistence on fully negotiated rates and the mainstream of thinking on Wall Street, I think the problem can be distilled down to three very basic assumptions:
1. Commissions of small lots, 100-200 shares, are way too high and deter the individual investor from entering the marketplace.

2. Commissions on institutional orders, whether they be blocks of stock, or orders to sell or buy large amounts of stock are absurdly low. On a block of stock worth a million dollars, present commissions are roughly 35% of a 1968 commission. By comparison, the commission cost of a purchase or sale of 100 shares of a $40 stock in 1968 was $39 versus today's figure of $58. During this time period, the percentage of individual business done on the New York Stock Exchange declined from 51% to an estimated 30-32%, while institutional business rose to a current level of about 68-70%.

3. Institutions, by a large majority, favor a continuation of some form of fixed rates, coupled with a volume discount on large transactions. I am sure this would be perfectly acceptable to the Exchange community. At present, institutional orders are negotiated on the portion over $300,000, while the SEC's proposal would start negotiating from ground zero. I contend that negotiating from a zero base would be a ruinous practice and would decimate Wall Street. What is needed to restore a respectable level of profitability to the capital markets is to raise the level from which we are asked to negotiate to perhaps $500,000 or $600,000 instead of the current $300,000 figure. If decent profits became evident, it would then be helpful to us all to lower commissions somewhat on small trades.

While my letter cannot pretend to be an economic panacea, I do believe that would be a giant step in curing some of our existing problems.

Very much hope to see you and Mrs. Buchen at Mountain Lake this Winter. With a little good fortune for Wall Street, I will be visiting there too. With all best regards.

Sincerely yours,

Christopher R. Sheppard

CRS/EF