

ALPHA BUSINESS CONTROL SYSTEMS

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Donald R. Hawks
President

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President George W. Bush
The White House
Washington, DC 20002

Dear President Bush Re: Reforming securities regulation

I recently wrote you about putting some “mustard” behind deregulation of small securities businesses to increase capital formation, invigorate Main Street and make Wall Street better? I also mentioned that our grandchildren would benefit and hopefully avoid overbearing socialism.

In my reading of recent economic history I can't recall seeing the intensity of conflict between our capitalist and socialist urges to be so great as presently on regulation of the securities markets. So you need more help than Mr. Christopher Cox, USSEC, or his attorneys can provide. I would strongly recommend you get either Mr. Milt Friedman, or someone he recommends, for some heavy consulting before going forward.

We can greatly invigorate capital markets and keep them credible – in underwriting, in the liquidity markets for stocks (including derivatives) and in the mutual fund industry. And while it is possible the NYSE can do a good job on the first two, I believe it is not well suited, or motivated, to regulate the mutual fund* / variable annuity business. That business should be separated and freed up, because of its tremendous potential for bringing in more capital and reducing the cost of capital. And it would free up and improve the entire economy as a result.

The current socialist cost approach for selling funds is one that prevents expansion rather than controlling the dishonesty as hoped. In fact, in the original hearings that set self-regulatory mechanism in motion there was testimony that one of the dangers was monopoly, and it has had that effect. Numbers of mutual funds sales personnel have not expanded parallel to sales opportunities, and sales opportunities – capital raised - have been severely constrained because of it. Different marketing channels have not been sufficiently expanded because of socialist “cost selling” constraints. Some markets cost more to reach and unfortunately those markets remain underdeveloped.

It is fascinating that the very people in the investment business that preach free markets and capitalism should be so incapable of encouraging a freely competitive mutual fund industry, but it is so. Tragically the NASD has become the world's fastest growing socialist bureaucracy since Hitler. I got a \$100 fine for reporting a report one day late, the NASD did not know its own computer was down. (\$100 per day.) I should be charging them for the bureaucratic BS, the Navy was better and with reason.