May 19, 1988

The Honorable Donald W. Riegle, Jr.
Senate Bank Committee SD 546
Washington, D.C. 20510

Dear Senator Riegle:

I am a Michigan constituent and this letter represents my feelings and the feelings of hundreds of Michigan residents who either invest in the equities markets or are professionals employed in that industry. I understand that the President's Working Group will be testifying before your committee on May 24, 1988. I request that you bring this letter to the direct attention of the Working Group, specifically, Alan Greenspan, David Ruder, Wendy Gramm, and George Gould.

In his testimony before a House subcommittee today, Mr. Greenspan gave his endorsement to program trading and said it would not be advisable or constructive to curb the influence of these derivative products on the traditional equities markets. He stated that studies do not conclusively prove that the use of index futures have contributed directly to the instability in the equities market. These remarks seem ill-considered.

Rather than simply using these products to "hedge" portfolios, as Mr. Greenspan indicates, it is obvious to me and thousands of other professionals who work in the marketplace daily, that a small number of traders are using these "derivative" products to their own advantage, leaving a wake of market chaos and fear as they go. These products have brought all the highly speculative and volatile elements of the commodities markets into the equities markets. The traditional investor in the equities market neither wants nor can tolerate these elements. And he or she should not have to endure them. Distinct boundaries have always existed between these two very different markets. Now, the futures markets are threatening to overwhelm the equities markets, driving the equity investor out of his own market. The bullies have taken over the neighborhood!

Mr. Greenspan feels that to curb the influence of these products would destabilize the markets. Why? It is obvious that stability returned to the markets only <u>after</u> limits were set a few months ago. Mr. Greenspan feels that since we have the technology, we should use these programs to whatever extent is possible. We also have the technology to use nuclear weapons at will; yet no one would argue that since we have the technology, we should, ipso facto, use nuclear weapons indiscriminately. That reasoning is fallacious and self-destructive: so is Mr. Greenspan's.

By endorsing these programs, Mr. Greenspan is failing in his public trust; his remarks are a morass of rhetoric which blur the obvious facts: program trading has exceeded its initial and legitimate use (portfolio hedging). It is now being used by a handful of traders, with sophisticated, computer driven models - and huge amounts of capital - to hold the traditional equities markets and the traditional equity investor hostage to the speculative and volatile elements of the commodities markets.

There are those who defend the use of index futures in program trading out of an obvious conflict of interest. Mr. Greenspan's remarks are discouraging because he has no such vested interests. We expect that the foxes would argue against putting a padlock on the henhouse. It surprises us when the farmer agrees with them.

I have tried to be brief. I hope you can communicate these feelings and perspectives in full to the President's Working Group. I believe they represent those of the overwhelming majority of investors and professionals in the equities markets.

Sincerely,

D. Eric Dawe
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