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Speculative or "Hedge" Funds

FILE NO.: 132-3

It has come to the attention of the Commission that a new type of speculative investment company is gaining national prominence. As you are aware, these companies have received a great deal of publicity in the trade papers. The market effect of the speculative or "hedge" funds is, as yet, unknown. However, it is becoming obvious that the operation of this type of company could have a serious impact on the market in general.

The Chairman views the bargaining of these ventures with some concern in regard to their potentially far-reaching effects and has instructed the staff to conduct an overall review of the operations of these companies to determine (1) if they are complying with the provisions of the statutes administered by the Commission, and (2) if new rules or legislation is warranted to regulate the practices of such companies. In this connection, the Chairman has asked the Director to advise him of any action taken to implement this study. The Director has informed the Chairman that instructions have been given to this office to take immediate steps to effect a review of the companies involved. The review is to be initiated by the inspection of all the "speculative" funds now registered with the Commission. There are a total of thirteen such funds now registered, of which four are "captive" funds in the Fund of Funds complex.

Therefore, your office should immediately inspect the following investment companies in your region:

Public Companies

Less E. Allen Fund, Inc.
120 Broadway
New York City

Bernstein-M____sley Fund, Inc.
341 Madison Avenue
New York City

Heritage Fund, Inc.
314 Fifth Avenue
New York City

Oppenheimer Fund, Inc.
5 Hanover Square
New York City

Samson Fund, Inc.
270 Park Avenue
New York City

Captive Companies

Alger Fund, Inc.
56 Pine Street
New York City

Douglas Fund, Inc.
1 Chase Manhattan Plaza
New York City

Financial Institutions Growth Fund, Inc.
90 Park Avenue
New York City

York Fund
30 Broad Street
New York City

It is recognized that all of the companies listed under the heading "Public" have been inspected, the most recent being Less E. Allen Fund, Inc., which was inspected in April of 1965. However, each should be inspected again at this time with a view in gathering the necessary information open which to base an overall study of the problems presented in the regulation of this type of company. Moreover, the "Public" companies should be done first in point of time.

We have been told that the recommendation of these companies should take precedence over all other inspections, regardless of prior scheduling. As an expediency, the inspection should be limited in scope to a review of the operations of these companies in the past six months with particular emphasis on amount of activity in the following areas:

1. Short sales (dollar amount and number of transactions by security);
2. Writing of Puts and Calls (dollar amount and number of transactions by security);

3. Trading in Puts and Calls (dollar amount and number of transactions by security);
4. Borrowing (aggregate amount borrowed and asset coverage);
5. Margin transactions (dollar amount and number of transactions by security);
6. Short-term trading (turnover rate, number of securities purchased, sold and reacquired, etc.); and
7. Arbitrage (number of securities, name of issuers and dollar amount).

Some information may be gained through a review of the responses to Items 1.26 and 2.02 of the N-15 Form filed by these companies.

Since we are working under a time mandate, it would be best to limit the inspection in the above manner with the understanding that, should circumstances warrant, we might be called upon to further develop certain areas.

It would be appreciated if your office would give priority to these inspections so as to enable the staff to make appropriate recommendations for either additional legislation or rules as soon as possible.

It should be noted that the Division has several staff members actively investigating the Fund of Funds matter. It may be to our advantage to have one of these men participate in the inspection of the "Captive" companies. Accordingly, when you are about to inspect such a company, please let me know so I can inquire whether a man can be made available to participate in the inspections.

If we may be of assistance, please do not hesitate to contact us.

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