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HOUSE OF REPRESENTATIVES
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LAWRENCE R. SIDMAN
CHIEF COUNSEL AND STAFF DIRECTOR

U.S. House of Representatives

Committee on Energy and Commerce

SUBCOMMITTEE ON TELECOMMUNICATIONS AND FINANCE

Washington, DC 20515

October 7, 1987

The Honorable David S. Ruder
Chairman
Securities and Exchange Commission
450 5th Street, N.W.
Washington, D.C. 20549

Dear Chairman Ruder:

I write to express my concern about yesterday's 91.55 point drop in the Dow Jones Industrial Average and to enlist the assistance of the Commission in determining the causes of that record decline.

As the Dow has reached its highest trading levels in history, it seems to be suffering increased intraday and end-of-day volatility. Rises and falls of 40, 50, and even 60 points are not uncommon and have been the subject of Commission study and reports.

Some market analysts and technicians are quick to point out that these movements are not that significant in overall percentage terms. For example, yesterday's 91.55 point drop was 3.47% of the Dow. I would suggest, however, that in absolute terms, the numbers are increasingly so great, both rises and falls, that it is possible that their sheer magnitude, coupled with the market's ever-increasing velocity, could affect investor response and create a near free-fall situation that feeds on itself. In such a situation, investors will hardly be assuaged by the refrain of market apologists who urge that the initial stages of the decline were modest in percentage terms.

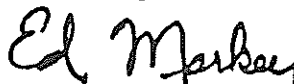
Obviously I am concerned about maintaining stability in our securities markets. I know from our personal meetings and your testimony before my Subcommittee that you share this concern. Therefore, I request that the Commission prepare a report on the causes of yesterday's decline. Published reports variously fixed the causes as the West German interest rate increase, anticipation of U.S. banks' increasing the prime rate, late day program trading and general investor uneasiness over the current levels of our securities markets. It would be helpful if the Commission could sort out these alleged causes and identify other factors that contributed to the decline.

In addition to reporting on the causes of yesterday's decline, please report on the Commission's views on the stock market's current degree of stability and the factors that contribute to whatever degree of instability you may determine exists. Among the issues you may wish to consider are the effect on market stability of program trading and portfolio insurance. As you may be aware, on July 23, I held a full day of hearings on virtually all aspects of program trading. The Subcommittee heard from some of the most knowledgeable people in the nation on these trading phenomena. Frankly, I remain unconvinced that program trading might not someday play an important role in a rapid, uncontrolled market decline. I have had an opportunity to review the remarks you made earlier this week on program trading, and find that I agree with many of your comments. Program trading raises substantial regulatory concerns and it is reassuring to know that, as Chairman, you will be addressing those concerns.

I suggest you also consider the potential effects of foreign investment on the stability of our markets. I am very concerned about the possibility that sudden declines in particular foreign markets could precipitate similar declines in our markets.

If you have any questions concerning any of these matters, please do not hesitate to contact me. It would be helpful if the Subcommittee could receive a response by November 2, 1987.

Sincerely,



Edward J. Markey
Chairman

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Sign: SEC ✓

U.S. House of Representatives
Committee on Energy and Commerce

SUBCOMMITTEE ON TELECOMMUNICATIONS AND FINANCE

Washington, DC 20515

October 15, 1987

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LAWRENCE R. SIDMAN
 CHIEF COUNSEL AND STAFF DIRECTOR

The Honorable David S. Ruder
 Chairman
 Securities and Exchange Commission
 450 5th Street, N.W.
 Washington, D.C. 20549

Dear Chairman Ruder:

I am writing as a follow-up to my letter of October 7, 1987, in which I requested that the Commission report to the Subcommittee on the causes for the previous day's precipitous drop in the Dow Jones Industrial Average. The even-larger decline of 95.40 points yesterday emphasizes the need for vigilant examination of such wild fluctuations in market levels. I would therefore ask that the Commission expand its report to include a review of the causes for the decline of October 14 as well as that of October 6.

The public information concerning the October 14 market decline focused almost entirely on the negative report on the nation's trade deficit for the month of August. This is so even though the August trade figures were nearly \$1 billion better than those of the previous month. It would be helpful to have the Commission's input with regard to this and other causes as well.

Again, if you have any questions on this matter, please do not hesitate to contact me. I look forward to your response.

Sincerely,

Ed Markey
 Edward J. Markey
 Chairman