An investment tenet exists: *"In the investment arena one is either selling a story, or selling performance, and the best investments usually combine both."*

The tenet above is a logical framework to examine the Proposed Rules. Any premise set forth by the SEC should be supported by facts.

As one examines the story behind the SEC Proposed Rule it can be summarized as follows:

1. <u>Hedge Funds are risky:</u> given this premise, logic dictates that additional "investor protections/accredited status" is needed.

As one examines the "investor protection/accredited status" sections of the Proposed Rules, it becomes very apparent the SEC is basing these rules on this sole premise. Yet, no performance data has ever been presented by the SEC to support its story that "hedge funds are risky." The premise set forth by the SEC is conspicuously absent of supporting facts. Why is this? The SEC appears to want the public to just take their word for it. Might there be a reason no facts are being presented by the SEC to support its story?

Let's use the "trust but verify" approach.

Two widely used measures of Risk exist. Both are completely objective.

1. Standard Deviation (volatility of performance)
2. Maximum Drawdown (a measure of maximum peak-to-trough declines)

Two charts (displayed below) have been constructed to display performance from 1990 through June 2012 (a statistically significant 22 year period). The charts compare the Risk and Return of Hedge Funds (as measured by the Hedge Fund-of-Funds Indexes Composite) to the MSCI World Index and the S&P 500 Index. The Hedge Fund-of-Funds Indexes Composite is believed to be the most representative index of achievable real-world hedge fund performance. This Hedge Fund Index simply combines the three most widely followed Fund-of-Fund Indexes on an equally weighted basis (HFRI FOF Index, Barclay FOF Index, EurekaHedge FOF Index).

Please review the charts below. A picture often tells a thousand words. A scientific analysis of the performance data reveals the precise opposite of the premise being set forth by the SEC.

Objective performance data reveals that Hedge Fund Indexes are approximately 63% less risky than Major Global Stock Indexes as measured by Standard Deviation, and 59% less risky as measured by Maximum Drawdown. Said differently, global stocks as measured by the MSCI World Index have exhibited 181% more risk than Hedge Fund Indexes as measured by Standard Deviation, and 147% more risk as measured by Maximum Drawdown. It is important to note, that extremely similar risk ratios also exist if one compares the average Standard Deviation and Maximum Drawdown of individual stocks to individual hedge funds.

Given these facts, it appears the entire premise of the SEC (hedge funds are risky and need additional "investor protections") is based on flawed logic that is contradicted by the real-world facts.

The facts reveal, the "investor protection/accredited status" sections of the Proposed Rules are based on a completely false premise. Objective performance data reveals that Hedge Funds have delivered returned higher returns and with much less risk than the largest and most reputable public stocks. Performance data strongly indicates that imposing additional restrictions (versus what is allowed for public stocks) is actually harmful to investors.

It has been said that when a politician or regulator makes a mistake, they will never admit it. They will either take it to the grave or find a scapegoat. This is why they have gained so little credibility in society.

Given the facts, the SEC has a great opportunity to gain some credibility.

One way exists to accomplish this. Identify a story that matches the facts. Seek truth.

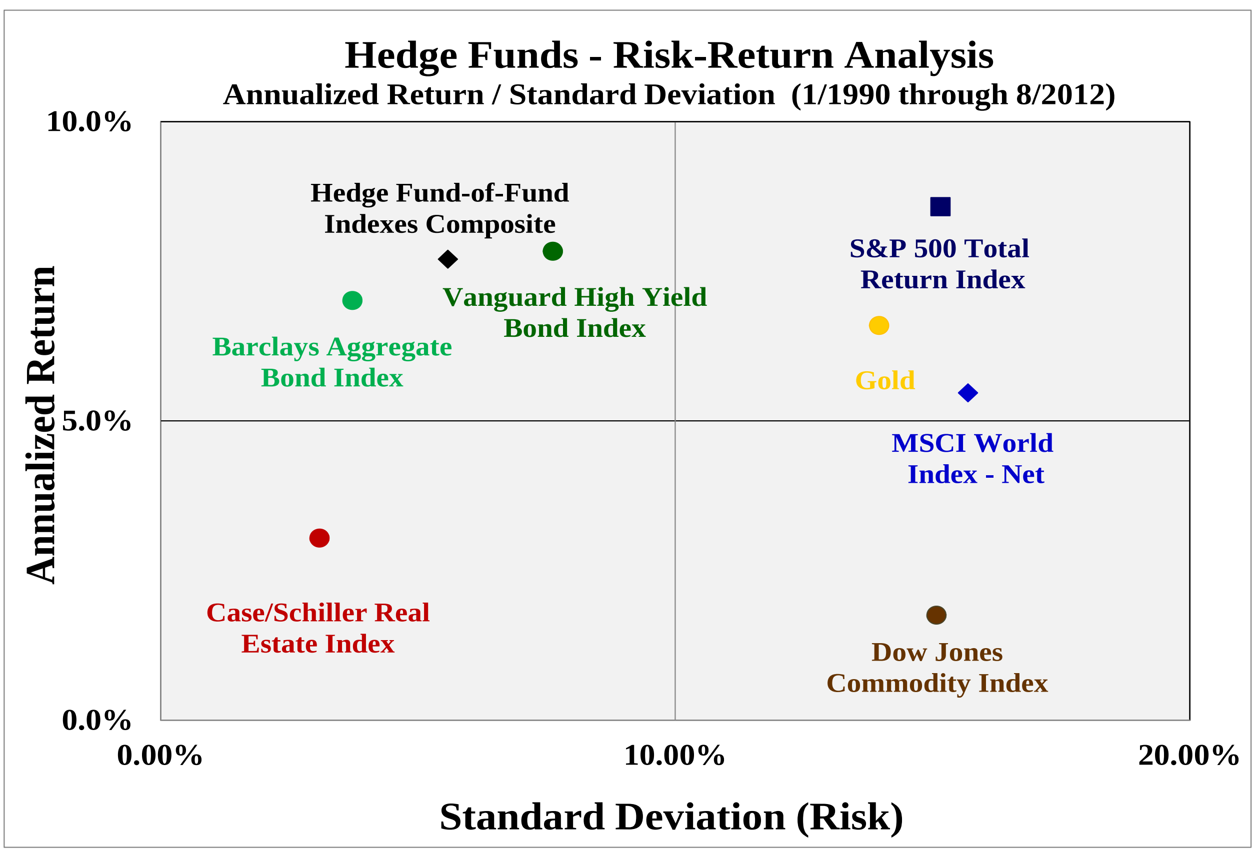
In this case, Hedge Funds are much less risky than public stocks. Imposing any additional restrictions that prohibit 90% of investors from owning them is harmful to investors because it deprives them of a valuable low-risk portfolio diversifier.

The ball is in the SEC's court. Please either refute the facts or find a story that matches the facts. The credibility of the SEC will continue to suffer until its story matches the facts.

It is recommended that the Proposed Rules be modified to eliminate the prohibition that prevents unaccredited investors from purchasing hedge funds. It is also recommended that the arbitrary 100-500 investor limitation be eliminated. Both rules harm investors by preventing them from accessing the most innovative risk-management professionals that exist. Empirical data clearly supports this.

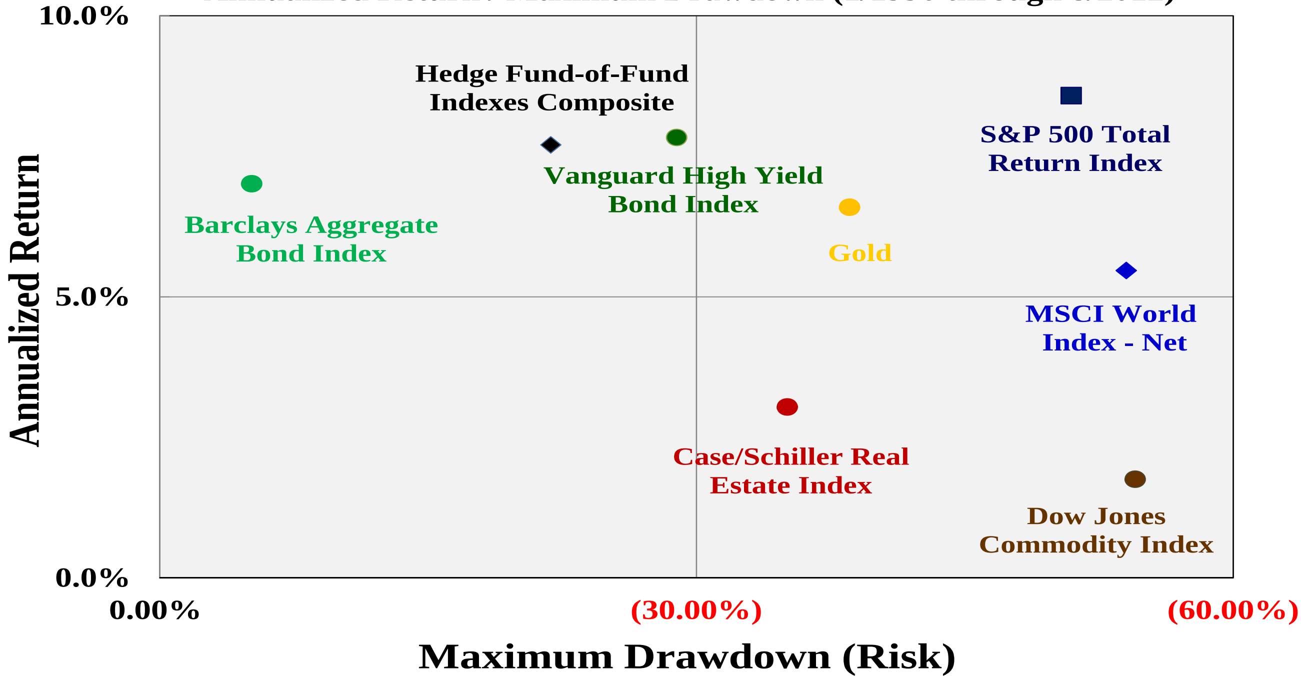
Respectfully,

Tim McCormack
Alpha Titans LLC



Hedge Funds - Risk-Return Analysis

Annualized Return / Maximum Drawdown (1/1990 through 8/2012)



January 1990 - August 2012 Return and Risk Analysis ASSET	Total Return	Annualized Return	Maximum Drawdown	Standard Deviation	Sharpe Ratio	Risk Return * Ratio
Barclays Aggregate Bond Index - AAA	364.6%	7.0%	(5.1%)	3.73%	1.08	1.36
Hedge Fund-of-Fund Indexes Composite	437.6%	7.7%	(21.9%)	5.58%	0.84	0.35
Vanguard High Yield Bond Index	452.7%	7.8%	(28.9%)	7.62%	0.63	0.27
S&P 500 Total Return Index (w dividends)	545.9%	8.6%	(50.9%)	15.16%	0.37	0.17
Gold (Spot Price)	325.1%	6.6%	(38.6%)	13.96%	0.26	0.17
MSCI World Index - Net	234.3%	5.5%	(54.0%)	15.69%	0.16	0.10
Dow Jones UBS Commodity Index	46.0%	1.8%	(54.5%)	15.08%	(0.08)	0.03
Case/Schiller Real Estate Index	97.2%	3.0%	(35.1%)	3.09%	0.01	0.09

** Risk Return Ratio is calculated by dividing the annualized return by the maximum drawdown. Sharpe Ratio uses an implied risk-free rate of 3.0%*

Major Asset Classes versus Hedge Fund-of-Fund Indexes Composite (1/1990-8/2012)