



U. S. Securities and Exchange Commission
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**News
Release**

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Address
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PROJECTIONS

**Edward H. Fleischman
Commissioner
Securities and Exchange Commission
Washington, D.C. 20549**

The views expressed herein are those of Commissioner Fleischman and do not represent those of the Commission, other Commissioners or the staff.

[T]he Commission's recent pronouncements on penny stock scams -- initiating a focussed enforcement program and proposing a rule to prohibit certain kinds of "cold calls" -- are additional evidences that one doesn't have to categorize brokers as fiduciaries to know that no broker can deal with its clients according to the maxim quoted in the Wall Street Journal several days ago: if sheep were not to be sheared, why did God make sheep and give them wool?

I do want to tell you that the S.E.C. will not tolerate the kind of sheep-shearing that our Associate Regional Administrator described to us at a public meeting of the Commission last Wednesday [February 15, 1989] and told us is endemic in Florida, though by no means limited to the southeast:

- . brokerage firms each with tens of salespeople
- . each salesperson making hundreds of telephone calls every day
- . seeking in each call to persuade known and (equally often) unknown customers to buy securities of unknown and often "shell" companies
- . for example, seeking to sell the shares of a company being offered in an unsyndicated initial public offering not only once, at the public offering price of (let's say) 10 cents a share, but again, for the opening aftermarket transaction, setting up a repurchase of the same shares from the first customer at (let's say) 12 cents a share -- yielding a lovely, quick "profit" to the first customer -- and seeking to re-sell those shares to the next customer at 20 cents a share or thereabouts, all pre-arranged before the public offering
- . frequently subject to "tie-in" practices, undisclosed to any customer, that preclude customers from realizing any real cash profit

- . frequently subject to "no net selling" practices, also undisclosed to any customer, that deprive customers of any opportunity to recover what's left of their invested funds
- . with undisclosed brokerage mark-ups ranging from 40% to 140% and more in an aftermarket clearly dominated and controlled by the brokerage firm, which maintains (to quote the Commission's Pagel opinion*) "almost exclusive control of the source of supply" of the shares being sold

I want to tell you that the S.E.C. is determined not to tolerate all or any part of those practices, and that Charlie Harper, the Associate Regional Administrator here in Miami, will deploy all the resources and persistence of the Commission to assure that that determination is carried out.

*In the Matter of Pagel, Inc., 48 S.E.C. 223, 226 (1985)