Rodney C. Pitts
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September 10, 2004

Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549-0609

Re: File Number S7-30-04: Proposed Registration Under the Advisers Act of Certain Hedge Fund Advisers

Dear Mr. Katz:

I am writing you in response to the call for comments regarding the recent SEC proposals for oversight of hedge funds.

Since 1989 my family and I have been investors in a number of hedge funds. Today we are an investor in our first hedge fund as well as several other funds. I have been active in investments for over 30 years. I have run several companies and currently run a privately held company.

I am responding to the rule proposed by the Securities and Exchange Commission ("SEC") on July 20, 2004 to require certain hedge fund advisers, even ones that advise very small funds, to register under the Investment Advisers Act of 1940 as amended. The reasons for this registration are to protect investors against fraud and the use of very high levels of leverage which may cause substantial risk to the capital markets and investors. Historically, registration under the Investment Advisers Act of 1940 has not discovered a lot of fraud. The field investigators are not set up to do that. Fraud has usually been discovered because of complaints by investors. It is my understanding that the SEC does not protect against systemic risk to the system that might be caused by the use of very large amounts of leverage like that employed by Long Term Capital. The Federal Reserve system and the bank regulators are set up to protect against systemic risk through their existing regulatory functions.

There are approximately 5,000 to 10,000 hedge fund advisers with 100,000 to 200,000 investors. The cost of registration and regulation under the Investment Advisers Act of 1940 would be very costly for the advisers, particularly the ones that advise small funds under $500 million and it would not protect very many investors. To qualify as a hedge fund investor the rules require very substantial net worth and any fraud in this regard by the advisers will not be discovered by registration which relates to total assets. The opportunity cost to the SEC to try to protect this small number of "sophisticated" investors would be very high.

In contrast, the SEC requires registration of mutual funds which have 91 million investors. Aren't the limited resources of the SEC better spent on regulating advisers to funds for 91 million investors as opposed to 200,000 investors?

In conclusion, registration under the 1940 Act of hedge fund advisers will not protect against fraud. Protection from systemic risk is better undertaken by the Federal Reserve and bank regulators that already have enforcement powers in this area. Securities fraud laws already cover fraud by hedge fund advisers and in our market system investors will complain about fraud and other abuses pursuant to legal contracts. There is no reason for regulation by the SEC of hedge fund advisers.

Sincerely yours,

Rodney C. Pitts