NASD newsletter

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. • 1735 K STREET N.W. • WASHINGTON, D.C. 20006

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IN NASDAQ SECURITIES, A FIVE-YEAR BULL MARKET

During the market downturn from October 5 to October 31, the Dow lost 8.9%, the NASDAQ Composite Index 10.8% and the AMEX Market Value Index lost 13.2%.

Despite the downturn, NASDAQ securities have been enjoying a five-year bull market, as the NASDAQ index figures below show.

Also, NASDAQ securities have increasingly consolidated their position as the second most heavily traded group of stocks in the nation. This year, volume in NASDAQ securities is running nearly 45% of NYSE volume and more than triple that of the AMEX.

Index & Volume Comparisons Between NASDAQ Securities & the Exchanges

	NASDAQ Composite Close	Volume in NASDAQ Securities	DJIA Close	NYSE Volume	AMEX Close	AMEX Volume
1974	59.82	1,179,723,000	616.24	3,517,743,000	60.32	482,181,000
1975	77.62	1,390,412,000	852.41	5,050,736,000	83.48	539,348,000
% Change	+ 29.8	+ 17.9	+ 38.3	+ 43.6	+ 38.4	+ 11.9
1976	97.88	1,683,933,000	1004.65	5,360,116,000	109.84	648,297,000
% Change	+ 26.1	+ 21.1	+ 17.9	+ 6.1	+ 31.6	+ 20.2
1977	105.05	1,932,100,000	831.17	5,273,767,000	127.89	653,129,000
% Change	+ 7.3	+ 14.7	− 17.3	− 1.6	+ 16.4	+ 0.7
1978	117.98	2,762,499,000	805.01	7,205,059,000	150.56	988,559,000
% Change	+ 12.3	+ 43.0	− 3.1	+ 36.6	+ 17.7	+ 51.4
31 October 1979	135.53	*2,962,241,555	815.70	*6,791,952,725	203.64	* 909,510,000
% Change	+ 14.9	**+ 23.3	+ 1.3	**+ 8.7	+ 35.3	**+ 6.0
% Change (1979 over 1974)	+126.6	+202.0 (Est.)	+ 32.4	+130.0 (Est.)	+237.6	+125.3 (Est.)

* Year-to-Date Figure
** Percentage Change computed from 31 October 1978

IN THIS ISSUE

THE VIEW FROM OREGON . . .

Oregon Journal, August 20, 1979

NW investing

Over-the-counter markets gain

By SHANNON PRATT

The over-the-counter markets are continuing to gain both investor and company favor compared with the listed stock exchange markets.

This was the general conclusion of statistics and opinion presented at the Northwest Security Traders annual meeting recently at Pope & Talbot's Admiralty Resort at Port Ludlow, Wash.

Pratt

For the first half of 1979, the volume of OTC stock trading on the NASDAQ system (National Association of Security Dealers Automated Quotations) grew to more than 1.6 billion shares, an increase of 25.4 percent over the first half of 1978.

For comparable periods, trading volume on the American Stock Exchange grew 13.1 percent to 496 million shares, while volume on the New York Stock Exchange was up only 8.1 percent to 3.7 billion shares.

SAFECO SENIOR VICE president and treasurer Bruce Robb explained why Safeco has remained in the OTC market and intends to continue to do so rather than listing on the New York Stock Exchange.

He said that 14 or 15 brokerage firms compete in quoting Safeco stock on the NASDAQ system, including three or four of the largest capitalized broker-dealer organizations in the United States.

This is much superior to the New York Stock Exchange system,.where only a single specialist quotes the stock, with the capital resources of only a single firm, and in a noncompetitive situation.

ROBB SAID THAT in 17 years, he never has had a complaint from a stockholder about the market in Safeco stock. Safeco has about 6,000 stockholders and just under 20 million shares outstanding, trading recently a little more than $35 per share, representing a total market value of the stock of about $700 million.

Robb also noted that Safeco is a major institutional investor itself and, as such, has no hesitation about buying OTC stocks for its own institutional portfolio.

"In fact, we are always unhappy when an OTC stock is listed on the Big Board (New York Stock Exchange) because the markets are not as good," Robb added.

He also mentioned that Safeco is fairly heavily invested in regional bank stocks, most of which are traded OTC.

Hillhaven president Dan R. Baty explained the reasons why Hillhaven preferred the OTC market so strongly that it decided to delist its stock from the American Stock Exchange.

He said ths strongest reason was what he described as the "smoothness of trading," that is, that the competing market maker system in the OTC market helped to prevent the erratic short-term price moves in the market that were caused by the thinly capitalized specialist trading on the American Stock Exchange.

BATY ALSO FELT that the many broker-dealer organizations making markets in OTC stocks tend to provide sponsorship to the public investors by taking an interest in knowing the company and by providing research on it to their customers.

Intermediate-size companies listed on exchanges would be less likely to have the benefit of simialar sponsorship.

The NASDAQ system now includes 2,610 over-the-counter stocks, with 383 broker-dealer firms participating in the market-making activity.

There are approximately seven broker-dealer firms competing with one another to provide quotations on each OTC stock on the system, compared with the single "specialist" who is totally responsible for the trading of a stock on most exchanges.

The Northwest Security Traders annual meetings are sponsored alternately by the Security Traders Associations of Seattle and Portland,. The 1980 meeting will be Aug. 8-10 at Sun River, Ore.

General chairman for 1980 will be Ray J. Zora, assistant vice president in charge of trading for the trust department of the First National Bank of Oregon.

OFFICERS OF THE Seattle Security Traders Association, which sponsored the 1979 meeting, are: Mickey Guthrie, Wm. P. Harper & Sons Co., president; Dave Read, Blyth Eastman Dillon & Co., vice president; Jean Terry, Foster & Marshall Inc., treasurer; and Ruth Barnes, Seattle-First National Bank, secretary.

Officers of the Portland Security Traders are Michael C. Malone, Somers, Grove & Co., president; Ray Zora, vice president; Glen Childs, Capital Consultants, treasurer; and David Roe, Merrill Lynch, secretary.

Growing national interest in Northwest stocks was reflected by the attendance record set at the 1979 meeting — more than 160 participants from all parts of the country, including substantial representation from California and New York.

SMALL BUSINESS FINANCING REPORT SHOWS RESULTS

The NASD's Small Business Financing Report, whose 19 recommendations were presented in May to the Senate Select Committee on Small Business (NASD Newsletter, July 1979), has received a good response in the Administration and in the Congress.

Clarification of Prudent Man Rule

Consistent with a recommendation of the Report, the Department of Labor recently adopted a final regulation concerning the investment of pension funds under the "prudent man" rule. Under the regulation, the degree of risk associated with a specific investment does not, by itself, make the investment imprudent. Instead a fiduciary is required to determine if the investment furthers the plan's purposes by considering the following factors:

- The composition of the portfolio with regard to diversification;
- The liquidity and current return of the portfolio relative to the anticipated cash flow requirements of the plan; and
- The projected return of the portfolio relative to the funding objectives of the plan.

The Department offered the regulation as a "safe harbor" for fiduciaries whereby those complying with the provisions of the regulation will have satisfied the requirements of the "prudent man" rule. This newly adopted regulation should help to facilitate small businesses' capital raising by limiting the influence of an investment's riskiness in a fiduciary's decision to invest.

Tax-Deferred Reserves for Market Makers

A further significant development has been the commitment of Senate Select Committee Chairman Gaylord Nelson to work toward the implementation of a number of the Report's recommendations. Steps are being taken by the Senate Committee toward legislation which would permit the establishment of special tax-deferred reserves as an incentive for broker/dealers to increase their market making activities in the securities of small and developing companies.

Exemptions for Venture Capital Firms

Another recommendation of the Report was to permit public investment in professionally managed venture capital firms by exempting such firms from the Investment Company Act of 1940, whose provisions make it very difficult for venture capital companies to operate successfully under it. Senator John Tower has recently introduced a bill which would exempt a venture capital company from the Act, provided it has been in business for five years, the majority of its board is independent, it submits to the "full regulatory system" of the Securities Act of 1933 and the Securities Exchange Act, and it accepts restrictions on ownership by insiders of securities issued by companies in which it invests.

New prudence rule means . . .

Attention may shift to OTC

NEW YORK—In wake of the new prudence rule more attention may be drawn to over-the-counter stocks that investors have largely neglected in the past.

Over-the-counter stocks have not been ignored by certain mutual funds, which have been reaping consistently good returns with them.

One successful fund utilizing the smaller stocks is the Lord Abbett Developing Growth Fund, which has about 35 pension clients.

Lord, Abbett & Co., with $2 billion in mutual funds and pension accounts, established the fund six years ago. Since its inception, seven holdings have been acquired by other companies, and there has been a compound annual return of 5.3% through 1978 compared with 2.7% for the S&P 500. The fund was up 26% compounded annually compared with 22% for the S&P for 1975 through 1978.

Daniel R. Cooney, industry researcher for Lord Abbett, spent two years traveling the country, interviewing business managers, critiquing operational techniques and probing companies' potential for success before one share in the $28 million fund was sold.

He selected companies he felt had found a niche in the market for their product, he said, using the same criteria he follows today. However, now there are "hundreds of potential businesses" on his desk that he says merit attention and the fund's financial support.

He would like to be in the position to back the best of these entrepreneurs, but the money is not always there.

The outlook of the small business with regards to investors has not improved significantly since ERISA appeared on the scene, although Robert S. Driscoll, managing partner of Lord Abbett, predicts the new prudence rule will soothe the anxieties of "timid" investors.

Still, in his opinion, the regulation wasn't a necessity. "If you do your research and are conscientious; under the prudent man rule you could buy these companies," Mr. Driscoll said.

Lord Abbett followed that theory when it assembled the Growth Fund, which is comprised of primarily small, aggressively-managed businesses.

Its portfolio listings are always business companies, not conglomerates, because Cooney believes conglomerates sacrifice their chances for optimum growth when they diversify.

Small venture capital companies also are avoided. The fund looks for companies with annual earnings of $500,000 to $1 million, a heathy balance sheet with debt less than 20% of total capitalization and an annual growth rate of 15%.

The fund shuns fads and gimmicky products. Taylor Wine, Peachtree Doors, Data 100, American Telecommunications and Skyline Oil are some holdings that have appeared in the fund in the past six years. However, small oil and computer companies appear more regularly in its listings.

The main focus is still on long-term investments and returns, Mr. Cooney said, because there "is a lot of volatility in the area." Clients can liquidate at any time, but patience is repeatedly stressed.

The future looks rosy for investing in small companies, Mr. Driscoll said, a forecast he bases on an increase in congressional attention to small company needs that he says has been prompted by a faltering in "our growth and production compared to that of Japan and Germany." ■

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NEW NASDAQ PLUSES

More Level 1 Terminals

Currently 44,483 desk-top terminals used by securities representatives and distributed by quote vendors receive NASDAQ Level 1 service, consisting of the Representative Bid and Ask on almost all NASDAQ securities, OTC market statistics and other data. This is an increase of 4,000 such Level 1 terminals during the first nine months of 1979. It follows on an increase of 5,800 Level 1 terminals during all of 1978.

Reduced NASDAQ Rates

As of October 1, NASDAQ Inc.'s monthly charges for receiving Level 1 service were reduced to $8.75 per terminal, from the previous $20 for the first Level 1 terminal and $10 for each additional terminal at the same location.

For Level 2 and Level 3 NASDAQ terminals the standard, high and unlimited usage plans (ranging in monthly charges from $475 to $875 for one terminal) were eliminated. Now the monthly terminal charge is $180 for the first terminal and $125 for each additional terminal at one location; the monthly service charge for either Level 2 or Level 3 service is $150 per terminal; and the usage charge is 1¢ per quotation request, with no maximum charge. CQS service is $50 per terminal.

These reduced NASDAQ rates will save the entire universe of NASDAQ subscribers approximately $5 million in 1980. Of course the specific savings of individual subscribers will depend on their usage.

NASDAQ Terminal Replacement

All NASDAQ Level 2 and Level 3 terminals will be replaced during the next two years by much more sophisticated ones. At the end of October, the NASD's Special Committee re Terminal Replacement examined new terminals being offered by three competing vendor firms, and submitted recommendations on the features of the future terminals to the NASDAQ Board.

Members of the Special Committee are:

- James F. Keegan, Chairman, Morgan, Keegan & Company, Inc.
- Jackson P. Bayer, E. F. Hutton & Company Inc.
- James V. Coppotelli, Merrill Lynch, Pierce, Fenner & Smith, Incorporated
- Marvin Demanzuk, Underwood, Neuhaus & Co., Incorporated
- Peter J. DaPuzzo, Loeb Rhoades, Hornblower & Co.
- John E. Herzog, Herzog, Heine, Geduld, Inc.
- Mat M. Johnson, Sterne, Agee & Leach, Inc.
- Peter B. Madoff, Bernard L. Madoff
- Raymond Meselsohn, Sherwood Securities Corp.
- William R. Radetzky, Janney Montgomery Scott Inc.
- Lawrence R. Rice, Morgan, Olmstead, Kennedy & Gardner Incorporated
- Frederic W. Rittereiser, Thomson McKinnon Securities, Inc.
- John D. Waller, Bateman, Eichler, Hill Richards Inc.
- John L. Watson, III, Robinson-Humphrey Company, Inc.
- Kenneth J. Wessels, Piper Jaffray & Hopwood Incorporated.
- Stephen S. Wien, M. S. Wien & Co., Inc.
- Jerry Williams, Jerry Williams, Inc.

New Concentrators, Upgrading of Central Computer

The NASDAQ regional concentrators will have been replaced by new ones by the end of 1979. There are plans to upgrade the Central Computer in Trumbull, Connecticut for the second time in late 1980.

New OTC Trading Facilities

Under discussion are several possible new facilities to enhance OTC trading and to link OTC and listed markets. These potential facilities include a switch which would allow firms to route orders to off-board market makers in listed securities, an order display capability, an automatic execution capability and an interface with exchanges through the Intermarket Trading System.

New NASDAQ Securities Marginable

On October 1, the Federal Reserve Board added 78 NASDAQ securities to its List of OTC Margin Stocks. The 78 securities are:

AES Technology Systems Inc.
Adventure Lands of America Inc.
Airlift International Inc.
Art's-Way Manufacturing Co.
Avantek Inc.
Bristol Products Inc.
Caesars New Jersey Inc.
Capital Energy Corp.
Catalina Savings & Loan Association ($1 par guaranty stock)
Chemlawn Corp.
Cherry Electrical Products Corp.
Color Tile Inc.

Computerized Automotive Reporting Service
Context Industries Inc.
Continental Information Systems Corp.
Crump, E. H. Cos.
Cullen/Frost Bankers Inc.
Cullinane Corp.
Danker Laboratories Inc.
Dunes Hotels & Casinos Inc.
Electrosound Group Inc.
Epsco Inc.
Evans & Sutherland Computer Corp.
Federated Guaranty Life Insurance Co.
Financial Industries Corp.
First National Supermarkets Inc.
First State Bank of Oregon
Floating Point Systems Inc.
Fluorocarbon Co.
Frontier Savings Association
GenRad Inc.
Hamilton Brothers Petroleum Corp. ($1 par cumulative preferred)
Independent Bankshares Corp.
Israel Investors Corp.
Jhirmack Enterprises Inc.
Judy's Inc.
Kallestad Laboratories Inc.
Kinder-Care Learning Centers Inc. (7½% convertible subordinated debentures)
Land Resources Corp.
Lewis, Palmer G.
MCI Communications Corp. (Common and Warrants, expires 11/17/80)
Medford Corp.
Merrill Bankshares Co.
Merry Cos.
Microdyne Corp.
National Aviation Underwriters Inc.
National Lampoon Inc.
Nelson, Thomas, Inc.
New Haven Water Co.
North American Biologicals Inc.
Northwestern States Portland Cement Co.
Nuclear Metals Inc.
Nuclear Pharmacy Inc.
Oil Base Inc.
Oregon Metallurgical Corp.
Oregon Trail Savings & Loan Association
Par Systems Corp.
Penn Pacific Corp.
Peoples National Bank of Washington
Powell Industries Inc.
Proprietors' Corp.
QL Corp.
Real Estate Investment Properties ($1 par shares of beneficial interest)
Robinson Nugent Inc.
Roper Industries Inc.
Ryan Insurance Group Inc.
Scientific Time Sharing Corp.
Servico Inc.
Stephens, John & Co.
Threshold Technology Inc.
Timeplex Inc.
Union Metal Manufacturing Co.
Washington Scientific Industries Inc.
Wausau Paper Mills
Weingarten, J., Inc.
Wiener Corp.
Xidex Corp.

Fifty-seven securities were deleted because their issuers had been acquired by other companies or because they had been listed. Twelve NASDAQ securities were deleted because they failed to meet the OTC margin criteria.

More "Blue Chip" Exemptions

The "blue chip" exemption from state securities registration has now been adopted in enough states so that a majority (52%) of all NASDAQ-quoted companies are headquartered in states which either have the "blue chip" type of exemption or generally do not require NASDAQ-quoted companies to register.

These jurisdictions are: Arkansas, California, the District of Columbia, Florida, Georgia, Kansas, Massachusetts, Michigan, Minnesota, Montana, Nevada, New Mexico, New York, North Dakota, Pennsylvania, Utah, Washington and Wisconsin.

Nine other states, in which another 15% of all NASDAQ companies are headquartered, plan to act in the near future on the "blue chip" exemption. They are Alabama, Arizona, Connecticut, Indiana, Kentucky, Oklahoma, Tennessee, Virginia and Wyoming.

More Newspaper Coverage

The Atlanta *Journal,* the Houston *Post* and the *Kansas City Times* this year started daily publication of the National NASDAQ/OTC List of the 1,410 top NASDAQ securities. The Boston *Globe* and the Camden (N.J.) *Courier-Post* started weekly publication of the National List. This brings to 62 the number of papers which run the National List daily or weekly.

Another dozen newspapers across the country are considering carrying the List in 1980, if the economics of their operations permit.

OTHER PRODUCTS

Direct Participation Programs: Five-Year Statistics

Product	1975 # of Filings	1975 Dollars Registered	1976 # of Filings	1976 Dollars Registered	1977 # of Filings	1977 Dollars Registered
Oil & Gas	121	$ 575,994,990	119	$ 757,722,513	85	$1,202,651,745
Real Estate	76	341,425,001	44	272,705,500	47	292,973,320
Vintage & Farming	4	2,465,150	3	2,750,000	2	17,500,000
Cattle Feeding & Breeding	8	27,845,000	5	35,980,000	14	57,237,500
Miscellaneous	33	57,457,300	25	111,438,000	34	250,030,575

Product	1978 # of Filings	1978 Dollars Registered	1979 (9 months) # of Filings	1979 (9 months) Dollars Registered
Oil & Gas	95	$1,613,397,975	70	$1,240,378,825
Real Estate	70	782,671,171	46	606,680,250
Vintage & Farming	2	27,700,000	0	0
Cattle Feeding & Breeding	14	22,325,000	4	42,160,000
Miscellaneous	34	162,815,950	23	124,988,000

Margining Mutual Funds

The NASD is supporting the Federal Reserve Board's proposed amendment to Regulation T, which would allow the extension and maintenance of credit on fully-paid mutual fund shares. However, under the Federal Reserve Board's proposal, broker/dealers would still be prevented from extending credit on the initial purchase of mutual fund shares, due primarily to the prohibitions contained in Section 11(d)(1) of the Securities Exchange Act of 1934. The NASD is therefore recommending to the SEC that it adopt an interpretation of 11(d)(1) which would exempt the shares of registered open-end mutual funds (other than variable contracts) from the existing limitations on the extension of credit on new issues, and thereby also on initial purchases.

Options Prospects

The SRO Options Task Force has circulated to the members of the NASD and six other self-regulatory organizations a new set of proposed responses to the recommendations of the SEC's Special Study of the Options Markets.

The SEC study recommended that brokerage firms be required to assign at least one qualified Registered Options Principal to home office compliance procedures relating to options, and that this person ordinarily have no sales functions, direct or indirect, relating to options or otherwise. As an alternative, the SRO Task Force proposes that the requirement that this Registered Options Principal have no sales functions shall not apply to a firm which has received less than $1 million in gross commissions on options business for either of the two preceding fiscal years or that currently has ten or fewer Registered Options Representatives.

Also, the SEC Study recommended that the currency of customer suitability information be confirmed semi-annually. The SRO Task Force, however, proposes that the suitability information obtained at the time of the opening of a customer account be required to be verified only when a firm becomes aware of a material change in a customer's situation.

Further, the SEC Study recommended that the self-regulatory organizations provide to their members a standard form for the recording of customer suitability information. The SRO Task Force, on the other hand, proposes that firms be permitted to develop their own versions of information forms, so long as certain minimum information is required.

(The full text of the SRO Task Force's proposals was contained in a memorandum from the NASD and the NYSE, dated August 31, 1979 and addressed to all members, member organizations of the NASD and the NYSE, and to interested persons.)

NATIONAL MARKET SYSTEM ISSUES

SEC Proposed Rule 19c-3

The NASD continues to press for the prompt adoption of the SEC's Proposed Rule 19c-3, which would permit off-board market making by exchange member firms in issues listed after April 26, 1979.

In testimony at a joint Congressional Committee hearing on progress toward a National Market System, NASD Chairman J. Stephen Putnam called the adoption of the proposed rule "the most important step the SEC could take to foster the development of a National Market System at this time."

Referring to the OTC trading facilities enhancements which the NASD has committed itself to build (Page 4, above), Mr. Putnam said: "The Association believes that these facilities will provide all broker/dealers with an efficient method of accessing all market centers and will constitute a great step toward the evolving National Market System."

The NASD has also suggested to the SEC a number of studies which might be made to evaluate the effect of Proposed Rule 19c-3, if it is adopted. The suggested studies would be designed to provide data on (1) the continuity of OTC market maker participation in newly-listed securities (2) order flow in these securities (3) the impact of 19c-3 on spreads and volatility and depth of markets (4) the impact of the Proposed Rule on exchange trading and internalization of trading activity.

Designated Securities

The NASD has responded to an SEC rule proposal which sets forth a plan for the designation of securities, including NASDAQ securities, to be traded in a National Market.

The principal feature of the Commission proposal is a two-tier approach. Securities meeting Tier 1 criteria would automatically be designated as National Market System securities, while those meeting the less stringent Tier 2 criteria would be eligible for designation as National Market System securities by an industry body composed of the exchanges and the NASD.

Tier 2 securities would be considered for inclusion in the National Market System upon application of an issuer or two or more market centers or prospective market centers. Both exchanges and OTC market makers are regarded in the Proposed Rule as market centers.

The Commission set forth for comment several alternative criteria levels for each tier. Under the most stringent level for Tier 1, there would be about 295 NYSE issues, 49 NASDAQ issues and 15 AMEX issues designated for the National Market System. Under the least stringent suggested criteria for Tier 2, there would be 1,750 NYSE issues, 1,672 NASDAQ issues and 180 AMEX issues that would be designated.

The principal recommendation of the NASD to the SEC is that a rule specifying the criteria and procedures for inclusion of securities in the National Market System not be adopted until the Commission and the securities industry have had the opportunity to observe the impact of Proposed Rule 19c-3 (regarding newly-listed securities) and the development of the new facilities for the over-the-counter market. The postponement, the NASD said, will enable the Commission and the securities industry to observe competition between the exchanges and over-the-counter market makers, and to analyze the impact of merging exchange and dealer markets into one system.

The NASD also strongly reiterated a position it had taken in 1978, namely, that issuer companies must be given a meaningful voice in the designation of National Market System securities. Now as then, the NASD believes that the companies, which have a fiduciary responsibility to their shareholders, should have a choice as to how their shares are traded in a National Market environment.

Further, the NASD challenged the Commission's two-tier approach as inappropriate, complicated and unnecessary. It said that one set of standards applicable to all National Market System securities should be adopted after the results of Rule 19c-3 trading experiment have been observed.

The Association also stressed that the criteria for National Market System securities should be primarily those which are indicative of national investor interest, such as dollar value of trading volume and size of public float, rather than standards which relate to the investment merits of a security. This position is in keeping with the SEC's previous statements on this issue.

Finally, the Association believes that the present ticker network structure must be modified so that there would be one National Market System tape, rather than the present two tapes, one on NYSE issues and the second on all other issues. The NASD does not believe that distinction as to marketplace is appropriate in a National Market reporting system.

Limit Order Protection

The NASD has further responded to an SEC proposal for limit order protection in a National Market System.

The Commission's proposal would provide for protection for all displayed limit orders entered by the "public" (but not by market makers) against executions at inferior prices. A public limit order is defined by the Commission as essentially any limit order not for the proprietary account of a broker or dealer, or any person associated with a broker or dealer, which is entered into a market center's limit order repository.

The Association's Board of Governors has committed itself to the SEC to work actively with the exchanges to develop a joint plan to provide a mechanism for nationwide protection of limit orders.

However, the Board has responded to the SEC that it is premature to consider what specific rules should be applicable to the protection of limit orders until there is a clearer understanding of the market structure and environment that will exist for the trading of National Market System securities.

The NASD's principal concern is that if only those limit orders entered by the "public" are afforded protection and competing market makers must always improve on the price displayed by a member of the public before they may expect to trade as market makers, the incentive for market making in a competitive environment will have been eliminated. Further, the definition of "public" would include professional hedge funds and others who have as much capital and expertise as market makers and should not necessarily have an edge on a professional who commits capital to making a consistent market.

The view of the NASD Board is that there should be parity in the protection of "public" and broker/dealer limit orders. Under these ground rules, no "public" order would be executed at less than the best price prevailing in the market, and the incentive for market making would still be present.

NASD CONDUCTS PANEL PRESENTATION FOR NATIONAL ASSOCIATION OF REALTORS

NASD officers and members of the NASD's new Real Estate Committee (NASD Newsletter, July 1979) conducted a well-attended panel presentation on November 8, at the National Association of Realtors convention in New Orleans. The purpose of the presentation was to acquaint realtors with the Association and its programs in the real estate area.

The NASD's new limited qualifications examination for direct participation program principals and its forthcoming examination for direct participation program representatives, along with a generally increased interest in real estate syndication, are resulting in expectations that substantial numbers of real estate firms will seek registration as broker/dealers and that real estate professionals will seek to qualify as principals or representatives. One initial function of the NASD's Real Estate Committee is to focus attention on problems encountered by newly registered broker/dealers and Association members dealing in real estate securities.

Participants on the NASD panel and their presentations were:

- J. Stephen Putnam, Chairman of the Board of Governors of the NASD—*"How Self-Regulation Works."*

- Gordon S. Macklin, President of the NASD—*"The Structure of the NASD."*

- Burton E. Smith, Member of the NASD Real Estate Committee and Chairman of the Board, Dominion Financial Corporation, Newport Beach, California—*"The Real Estate and Securities Industries Working Together."* Mr. Smith was one of the prime movers in the establishment of the Real Estate Securities and Syndication Institute and served as the first President of RESSI. He reviewed the significance of regulatory decisions which found some real estate products to be securities and therefore subject to a whole new body of regulation, and he discussed the evolution of RESSI and the synthesis of interest between the securities and real estate industries.

- Robert L. Franklin, Chairman of the NASD Real Estate Committee and President, Moseley Associates, Moseley, Hallgarten, Estabrook and Weeden, Inc.—*"Current Real Estate Activities."* Mr. Franklin discussed the role and initial programs of the recently created NASD Committee which he chairs, and solicited suggestions from the realtors attending the panel presentations as to additional needs which the Committee and the NASD should address.

Other members of the NASD Real Estate Committee who attended the panel presentation and participated in the discussion were: Samuel M. Chase, Jr., Chase Capital Management, Indianapolis; Richard E. Landau, E. F. Hutton & Company, Inc., New York City; John R. Larson, Drake & Larson, P.A., Minneapolis; William B. Madden, Schneider, Bernet & Hickman, Inc., Dallas, and a Governor of the NASD; James J. Matison, The Jim Matison Companies, Tucson; Steven Miller, Oppenheimer Properties, Inc., New York City; Mason T. New, Branch, Cabell & Company, Richmond and a Governor of the NASD; Howard C. Pizer, The Balcor Company, Skokie; and Walter A. Turner, Jr., Touche Ross & Co., San Diego.

Summaries of the panel presentations may be obtained from Dennis Hensley at the NASD in Washington, (202) 833-7240.