

COMMONWEALTH  
GROUP

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March 28, 2011

Hearing before the Committee on Commerce and Consumer Protection  
Tuesday, March 29, 2011 – 9:00 a.m.  
Conference Room 229, State Capitol  
415 South Beretania Street, Honolulu, HI

Subject: Testimony in Support of Senate Concurrent Resolution 134 (“SCR134”)

Dear Chair Baker, Vice-Chair Taniguchi and Committee Members,

This letter is being submitted in order to provide written testimony in support of SCR134.

My name is Michael Sauvante and I am the Executive Director of Commonwealth Group. Commonwealth Group is principally focused on the study and promotion of socially responsible businesses and financial institutions. One of the areas to which we have dedicated considerable time and resources pertains to local stock exchanges and their impact on, and benefits to, local economies.

Given that focus, we can unequivocally state that we strongly support this proposed legislation and the goals of that legislation.

Here is why:

The real (Main Street) economy is in the worst shape since the Great Depression, despite the rosy picture on Wall Street and on the balance sheets of large companies. The official unemployment rate in the country hovers around 10% with the true effective rate estimated to be 15%-20%. Millions of people have lost their jobs and cannot find new ones or are under-employed in low paying jobs that do not provide a living wage. Washington, Wall Street and big business have no real solutions.

That leaves job creation to the states and the one sector of the economy that historically has been the engine of job creation – small business. Small business has historically been the primary means of job creation in this country, especially when the economy is down.

In times past, small business led the country out of recessions. The SBA’s Office of Advocacy recently revealed that small businesses with less than 20 employees created 98% of net new jobs during the three years after the 2001-2002 recessions, and businesses with less than five employees created 74% of those net new jobs! Those numbers have been reinforced by a recent Kauffman Foundation study entitled “Job Growth in U.S. Driven Entirely by Startups”.<sup>1</sup> However, that is not happening now. According to the Wall Street Journal, startups are not getting investments this time around.<sup>2</sup> Not only have home equity loans, a common source of startup capital for entrepreneurs,<sup>3</sup> become virtually non-existent, but angel investors have abandoned entrepreneurs as well.

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<sup>1</sup> <http://www.kauffman.org/newsroom/u-s-job-growth-driven-entirely-by-startups.aspx>

<sup>2</sup> *Few Businesses Sprout, With Even Fewer Jobs*

[http://online.wsj.com/article/SB10001424052748704648604575621061892216250.html?mod=WSJ\\_article\\_related](http://online.wsj.com/article/SB10001424052748704648604575621061892216250.html?mod=WSJ_article_related)

<sup>3</sup> “New Businesses Do More to Fix Economy Than Small Businesses” [www.thetakeaway.org/2011/jan/13/money](http://www.thetakeaway.org/2011/jan/13/money)

These wealthier investors (less than 2% of the population) are not investing in small companies (2<sup>nd</sup> lowest rate in 18 years). This is a major problem because state and federal laws currently force small businesses to rely almost exclusively on those investors (called “accredited investors”) as their primary source of investment.

The other 98% of the population is largely left out because the government has created laws that, although intended to protect small investors, have the effect of legally excluding them, thereby cutting off a huge source of potential capital (literally trillions of potential dollars in aggregate across the country) for small, local companies.

Historically stock exchanges have provided a convenient public meeting place (marketplace) where “public” companies and their investors (both the 2% & the 98%) can meet and where the sale of those companies’ securities (stocks, bonds and other instruments) is facilitated, including both initial offerings and secondary trades. Existing stock markets are geared nearly exclusively to large companies with large public floats (number of shares held by the public) which provide substantial liquidity for shareholders.

In contrast, small public companies typically have very small floats and substantial illiquidity, i.e., few buyers and sellers at any one time. This illiquidity on the national exchanges for small companies creates a high degree of volatility in the price of their shares and easily subjects them to price manipulation.

Liquidity is the key driver that underlies a stock exchange and the key benefit that it provides to listing companies and their investors. If we are to provide that benefit to small and medium sized enterprises (SMEs), we must find a way to provide for greater liquidity than the current national exchanges afford.

Matching investors with SMEs needs to be one of the key objectives of states like Hawaii, especially local investors with local companies. If we as a nation are to provide an enhanced capital flow to SMEs, especially of local public investment funds, then a local stock exchange or stock exchange-like environment needs to be provided to perform that function and do so in a fashion that is geared towards, and better serves the needs of SMEs, than that afforded by the national exchanges.

Thus we conclude that it would be very much in the interests of the state of Hawaii and its citizens to move forward with this proposed legislation and join a movement that is gathering momentum across the country. We at the Commonwealth Group are actively involved in an effort to establish such a state based exchange here in California. We know of other efforts throughout the country, several of which are going on behind the scenes, besides those publicly visible.

Finally, we would like to offer our expertise and knowledge in this space, in any manner that may help you in this effort. We wish you success in this important work.

Best regards,



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