Source: http://jimymac.blogs.com/paradigm_investing/

Original article followed by rebuttal in bolded green.

Copyright material redacted. Author cites the following article: Floyd Norris, "Goodbye to Naked Shorting," New York Times, April 30, 2009.

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> **Naked short selling is like kiddie porn - there is no mistaking it when you see it. Getting at the source is a different story. People who practice devious and illegal deeds also go to great lengths to cover those deeds. And, in the case of Wall Street the palace is heavily guarded and protected. Time will tell if the SEC is still on the payroll. No one protects money like big money.**

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> **No, this appears to be an example of the border patrol all congregating at the last known breach ignoring the places where a new breach might open up.**

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> **The reported number of "fail to deliver" shares is less than the actual. The quarterly report issued by the SEC only counts the "fails to deliver" that is reported from the DTCC clearing process. It does not include the ex-clearing process which is reported on a voluntary basis. A large number of fails does not prove naked short-selling, absolutely. It does intimate nefarious trading similar to the bear raids which were outlawed after the 1929 stock market crash and provided the impetus for creating the SEC. It is highly likely that a large number of "fails to deliver" indicates a stock is naked shorted.**

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> **It may seem misleading to call them counterfeit shares but in effect that is what is created. When a share is not delivered a "security entitlement" or an IOU is put in its place. That IOU acts like a regular share in the system. However, it's an additional share that did not exist - it was created out of thin air. If counted like a real share it creates dilution. If counted like a real share then the total number of shares in the float is more than ever issued and creates further devaluation to the shorted stock price.**
>
> **Risk has nothing to do with whether the shares are "counterfeit" or not. It is because of this risk that the naked short seller perpetuates the "bear raid." He cannot afford to have the stock price increase - it would cost him money. That is why naked short sellers work in concert to keep the price depressed.**

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> **The naked short sellers have not stopped. They have just changed their strategy. When you disturb a colony of ants they don't disappear they just move the colony. Naked short sellers have exploited other techniques to hide their nefarious deeds. They use a practice similar to check kiting - they buy and sell their naked shorted stock from themselves through different accounts at Prime Brokers. They do this before the 13 day cutoff to avoid reporting. Also, follow the cross-trades - chances are it's a naked short seller trying to cover his tracks.**

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> **The evidence is not easy to come by. It's a closed system and the wrong doers are not legally bound to incriminate themselves with the Freedom of Information Act. There is a great lack of transparency in the clearing and settlement system. The reason given for keeping the secrets is to protect the trading strategies of its members. And that is precisely what they do to the detriment of companies, the shareholders, and this country. Big money protects big money.**

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Mr. Norris has subtly and erroneously switched the terms from naked short selling to "short-selling is evil." Those against naked short selling are not against legitimate short selling. The two cannot be lumped together. Short selling is a necessary trading strategy. Naked short selling is illegal and is the root cause for the disruption in our financial markets.

It is logical and seems reasonable to suggest that the market is skewed to the positive. In theory a share price can increase to infinity and can only go down to zero. There is a definite bottom and no ceiling - or so state the many who practice short selling to temper the markets and prevent unreasonable skyrocketing stock prices. And that is exactly why legitimate short selling is a good trading practice.

The reality is that naked short sellers create a rigged game. The number of shares of stock of a company is limited to an issued amount. Naked short sellers, since they do not borrow, are not concerned with that finite amount. They can naked short to infinity. There is nothing in the system to counter balance an unlimited number of short shares.

The SEC has the evidence. Where does the SEC get their Commissioners? Wall Street.

Perhaps they should ask Treasury Secretary Geitner for help. In an October 19, 2008 article, InvestmentNews.com reported that delivery failures of Treasury securities hit $2.29 Trillion Dollars - naked shorted Treasuries. Or this from IPSnews.com

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The cat's out of the bag. The only way the SEC could help the investment banks at that time was to stop short selling all together because heretofore they would not admit to naked short selling and its destruction. But, when the big money fell victim to the naked short sellers - something had to be done. It was not short sellers driving down the the prices and destroying investor confidence - it was naked short selling.

The SEC ban on short selling was a total admission of the underlying and out of control problem of naked shorting on a large scale. The banks were on the short list for infinite naked shorting. Wall Street eats its own. Greed is the motivation.

Mr. Norris often likes to write and confuse the two issues - naked shorting and legitimate shorting, that continues the misinformation campaign and thwart discovery.

China holds 681.9 Billion Dollars worth of Treasuries. Perhaps that is why China was worried about "the security of our assets." Perhaps that is another reason why the SEC put a stop to short selling.

When in doubt, follow the money, and remember big money protects big money.

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The two economists that published an article on naked short selling and profess belief in efficient markets have not spent time at the SEC. Other published economists, one having spent time as an SEC Fellow, the other as a Director of Operations at the DTCC, have warned of the abuses of naked short selling. They state that the persistent and pervasive fails to deliver problems could cause major disruption to our markets and economy. They have been proven correct.

Where was market efficiency when Blue Chip stocks were being naked shorted into penny stocks?

In 1985, a former SEC commissioner, Irving M. Pollack reported that, "*The fail-to-deliver / fail-to-receive problem has the potential for causing serious difficulties in a lengthy bear market.***" His report in 1985 was commissioned by NASD . He further warned, "***. . .the fact that there is no automatic mechanism preventing the substantial buildup of short positions at the clearing corporation and of fails to receive in the brokerage firms carries the potential for serious problems, particularly in the event of crisis market conditions.***"**

When Mr. Norris writes, "*An offer to acquire a company with a large short position can produce immediate and painful losses for those who bet against the stock,***" he does quantify just how many bets are lost. The odds are that a company that is relentlessly naked shorted will go bankrupt or at the very least be de-listed and not**

be bought out. Then the naked short seller is guaranteed not to have to cover his short position nor does he have to pay taxes. I also cannot quantify it, but I challenge Mr. Norris to come up with evidence that naked short sellers lose more than they win.

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I have no connection to Overstock.com.
Wanda J. Bond,
Author
"Naked Short Selling and Its Abuse"