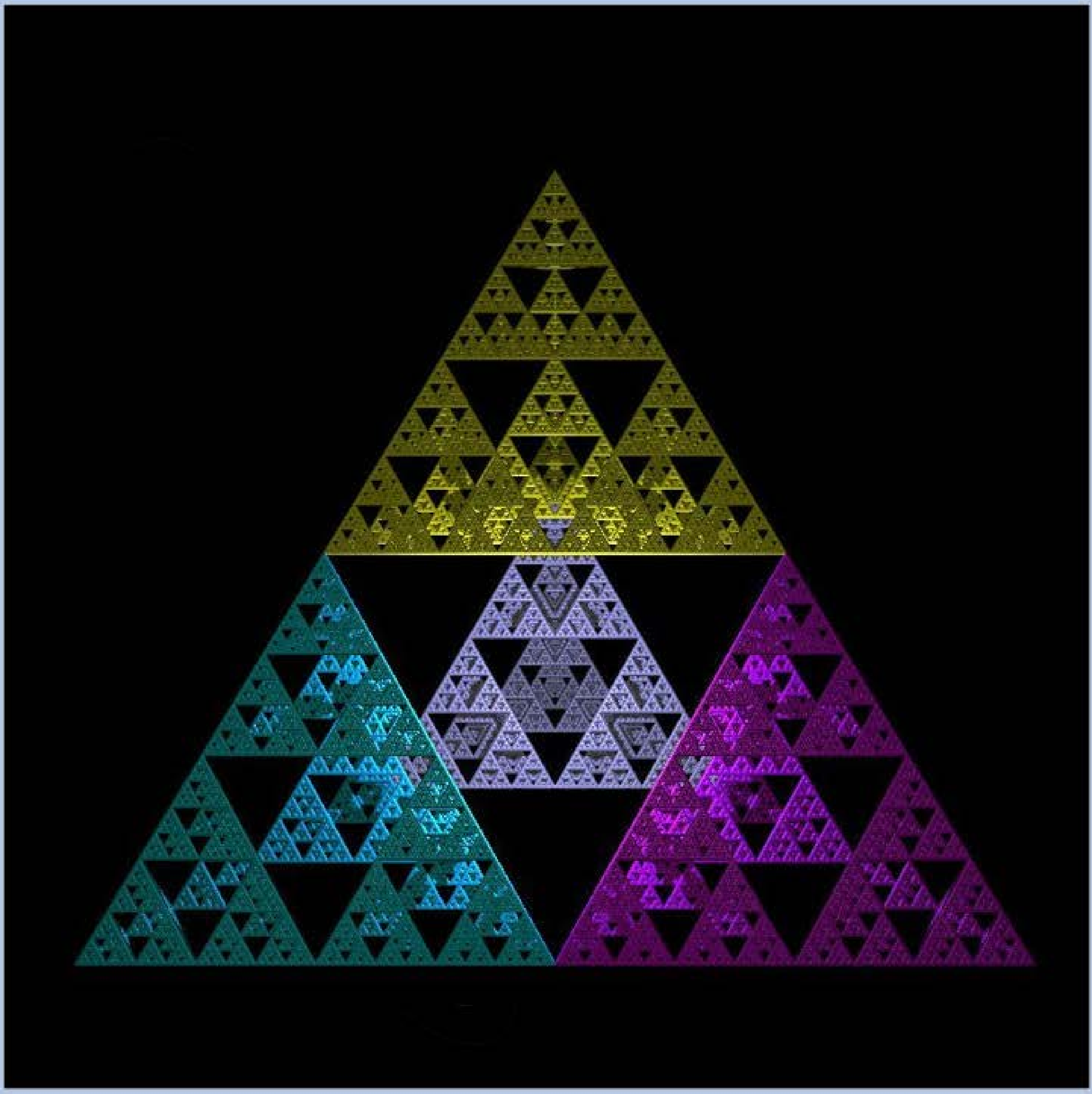
NAKED SHORTING

4 A Definitive Guide

by u/sharkbaitlol



Everything Superstonk Knows About Naked Shorting - A Definitive Guide

Moderator

Hi apes; **sharkbaitlol** here again chomping away at MSM this time. This is a quick post surrounding a particular news station confirming the concept of naked short selling (for anyone out of the loop); while this is hilarious, it's something the apes here at **Superstonk** know all too well as we've been researching this for a while now!

Over the last few months, we've had fantastic DD written on the subject and even had AMA guests come on to speak about it. The great news is, that this topic has picked up so much speed that we even see it trending on Twitter right now across various parts of the world.

With that being said this serves as a great time for us to showcase all the research apes here have worked on over the last several months. If you feel there's a great thread that should be included below (that I've missed); please feel free to comment and I'll edit it in.

Trending in United States

#NakedShorts

9,575 Tweets

the world is taking notice

Lets start off with a text book definition of naked short selling:

What Is Naked Shorting

Naked shorting is the illegal practice of short selling shares that have not been affirmatively determined to exist. Ordinarily, traders must borrow a stock or determine that it can be borrowed before they sell it short. So naked shorting refers to short pressure on a stock that may be larger than the tradable shares in the market.

Despite being made illegal after the 2008–09 financial crisis, naked shorting continues to happen because of loopholes in rules and discrepancies between paper and electronic trading systems.

https://www.investopedia.com/terms/n/nakedshorting.asp

Essentially it is the practice of shorting a stock (which is totally legal), but without the shares on hand (this is what's illegal). This is equivalent to spending shares you do not have; this becomes a slippery slope to create scenarios like what we see with GME where we saw hundreds of percent over the float was rehypothecated. **On GameStop specifically if you navigate to FINRA we can confirm it was over a WHOPPING 250% SI back in early January. This can be put on the same level of severity as printing out currency. Remember this is simply all that they're willing to admit. The reality is that misrepresenting this information is a slap on the write in fines.**

This process artificially increases the amount of shares in circulation without the affected companies approval; devaluing shares significantly. If you own mutual funds, ETFs, retirement plans or straight up stocks this should be a concern for you as these players (naked short hedge funds, financial institutions) are stealing from you. It's through this process that they killed off Toys'r'us, Sears and thousands of other companies.

Some great resources from over the last few months:

AMAs With Wes Christian

Wes Christian joined us recently for two amazing AMAs!

Just as a reminder for his background;

> *Wes Christian is a Texas attorney with an accent as big as his list of accomplishments! His primary focus in the last 11 years has been suing Wall Street for fraud and is a **US legal expert on naked short selling.***

- **Catch him in part 1 in an interview with the brilliant** u/dlauer **: https://www.youtube.com/watch?v=2rJujnpKiqM**
- **And part 2 with heavyweight investigative journalist Lucy Komisar: https://www.youtube.com/watch?v=q8-JO3g5bm4**

I highly suggest watching the AMAs to get an insight into the financial world; but here are some great quotes from **Wes** himself during the interviews;

> ***Lucy:*** *"Well, what was going on? What tactics were they using?"*
>
> ***Wes:*** *"Let's see back then what they did is they really naked short sold, what I would call small cap companies, bulletin board companies, not NASDAQ companies, not NYSE Amex companies, bulletin board companies, and back then those companies always needed capital. So they would enter into the the bad guys would enter into a convertible debenture, that is a basically a legal note a promise to pay money. In an exchange for that the note would say we the person who's owed the money can take shares, or we can take cash for payment. Well, the bad guys would always take shares. And so what would happen is the company the public company would sign the note because I needed the money. Because the people said, Oh, we'd love your company, we want to invest, we really think you've got great technology will loan you this money. In fact, we'll even let you repay us in shares with the company thought that's a winning proposition. Because my God, I don't have to part with cash, I'm gonna get cash in the door, it's great. But in reality, what that was, was a predator, or predator who was coming in getting inside information and loaning you money. And at the time, let's say that this company stock which was internet law library was making it up, but it's close $8 a share. And at the time, the amount of shares that would have to be given to the person who the note was made payable to would have been, let's say, a million shares. And it that time the stock started going down and down and down, and the volume of the sales went up and up and up. Of course, as we know, loosely, anytime sales, exceed demand or supply exceeds demand, the price is going to go down. So what was happening is the mission of the bad guys was to loan you two and a half million dollars, and be entitled, at least at that time to a million shares. So by the time sorry that they got through with you, you would have to give them 20 million shares."*

Shark's take: It wasn't always about going after big companies; Wall Street's appetites have grown over time as **Wes** suggests.

> ***Lucy:*** *"but just to just to intervene a little bit just to explain what it means. If you make a loan, and I think in this case for Sedona, it was two and a half million, you have to pay back, maybe it was 3 million in shares, but its shares and you think everything's going up, you're getting this loan is going to grow the business. But if they knock the share price down with naked short selling, 3 million worth of shares, may be the whole company, because the shares now are worth what a 10th a 20th. So that the number is important. $3 million worth of shares, gives them the whole company. And that's that's the deal. And that's how it"*
>
> ***Wes: "***That is exactly how it works. It is a way when you think about it to take the company over. Over the years, we've done 20 of these cases and and so and we're getting ready to file a couple more, we just found one in the southern district as you know the Harrington case. Basically, it is a way to either destroy the company and bury the dead bodies that the stock certificates that don't exist, or it's a way to steal the technology. I've seen it both ways. If they really like your technology, they will go in and right before the company Totally dies, they'll put it in bankruptcy, buy the assets out of bankruptcy for what they're owed, and go from there. So you're right. Their mission is to start out with 3 million shares and ultimately you owe 100 million shares in order to pay your two and a half million dollars worth of debt."*

Shark's take: This has been ongoing for such a long time that it no longer a new or shocking concept. The process of a naked short company takedown is well documented, and understood. They'll drag the company into significant debt before killing it off.

> ***Dave: "****So I think there are two things that I've seen on the on the subreddit, consistently, and that I think, you know, might be of interest to dive a little deeper into. And so, you know, we've talked about this a lot, and we've thrown the terms around today. But maybe, maybe it would be great to get a little deeper into it, which is the idea of synthetic shares and, and failures, right. And so maybe if you if you don't mind just going a little deeper into that dynamic. You know, what is that mechanism that that that these firms are using to create these synthetic shares? And what have you seen in the past?"*
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> *Wes: "Yeah, and again, I'm going to qualify that my answer, but to make it clear that I'm only using what's in the regulatory actions and out in the public marketplace, because again, I can't use any particular from a specific case. What I'm seeing is, is the creation of futuristic instruments. They've been called rehypothecation instruments they've been called repost certificates. They've been called putting a put in a call together. They've been called reverse conversions. There's many fancy names for them, but I call them I call them the Popeye and Whitby principle, okay. It's like, give me the hamburger today, and I'll pay you next Wednesday. Okay, except next Wednesday, incidentally, never comes okay. So So ultimately, you know, that principle needs to not be allowed because ultimately it culminates in the dissemination of false information. it culminates in that false information comes in several places. David's a great question you pose. Number one, they'll show it to the compliance department because Don't forget, each one of these firms has a compliance department. And that compliance department gets a knock on the door from the regulator or from the auditor that says, hey, what about this Charlie or Sally? And ultimately say, Oh, we got to fix that. Okay. And so they go to the broker and say, What Is this okay? Because Don't forget The proprietary trading desk is a whole section of that firm, there are traders that do nothing, but do prop trading. And so ultimately, they then say, well, we got to, we got to figure this out. So they'll go create this, you know, as to members in the conspiracy that puts in the calls. Or if they're short, they'll get a friend of theirs to sell them a bunch of shares, which, incidentally, are short also, but they'll mark them long. So guess what happens when they when the naked short seller is has this contingent liability on the brokerage firms books, he calls a buddy sell me some long shares, he sells in the long shares, well, that that cancels out net, magically, the number of long shares he got sold, netted out his his naked short to zero, he's he's all good, until the compliance guy comes knocking again. So the mission is to kick the can down the road kick the can down the road. So basically, you know, at the end of the day, it's creating a futuristic instrument it to to, you know, deal with the option market, the repossession or repo? hapa, hapa, rehypothecation. market. And anything else that is a futures contract? It's basically a futures contract to do something, in some form representative of shares that never gets consummated."*

Shark's take: We start venturing into the concept of rehypothecation when we enter into the realm of naked short selling. Of course these "synthetic shares" must be coming from somewhere. **Wes** confirms that the goal for these naked shorters is to keep kicking the can down the road infinitely. Short hedge funds just keep saying "I'll pay you next Wednesday" and continue saying it every week. Eventually the company gets killed off in this process as this can take months/years. With everything that's happening now, we hope it'll spur change.

AMA With Dr. Trimbath

Dr. Trimbath has been an incredible ally to the ape initiative;

A quick blurb about her incredible work:

> *" Susanne Trimbath holds a Ph.D. in Economics from New York University and received her MBA from Golden Gate University. Prior to forming STP Advisory Services, Dr. Trimbath was Senior Research Economist in Capital Studies at Milken Institute (Santa Monica, CA) and Senior Advisor on the Russian Capital Markets Project (USAID-funded) with KPMG in Moscow and St. Petersburg. She previously served as a manager in operations at Depository Trust Company in New York and the Pacific Clearing Corporation in San Francisco; she started her career in financial services operations at the Federal Reserve Bank of San Francisco. Since 1989, Dr. Trimbath has taught economics and finance in university graduate and undergraduate programs as adjunct, associate and full-time professor. In 2009, she was certified to teach in the distance-learning environment by both Bellevue University (Nebraska) and University of Liverpool (UK, by Laureate International, Amsterdam). "*

You can watch the AMA here; I also highly recommend her book called **"Naked, Short and Greedy"** goes into MUCH deeper detail as to the oversight of what went on at the DTC (Depository Trust Company) during her time there as senior management. This is the same security depository which the stock market sits on. It is a large component of how naked shorting is allowed to exist in the current landscape.

Fellow mod u/atobitt did a fantastic write up on the very topic of how the DTC has allowed this mess to happen in the first place. Highly recommend reading through his "A House of Cards" series.

Other fantastic threads by apes:

- " Explain w/ Crayons Series: What is Naked Shorting? Indicators GME is Being Naked Short " by u/AaronJamesArq
  - Great powerpoint type formatting that quickly and easily explains the concept of naked short selling and how it relates to meme stocks
- " The naked shorting scam revealed: lending of market maker privileges, the married put trade and why inflicting max pain will bleed them dry " by u/broccaaa
  - Amazing deepdive into how the naked short selling scam may work with some intensive mathematical research done around the topic.
- " Reason why they didn't speak about naked shorting" by u/Badgerv12
  - Further proving why a slip up on news stations may be important. It's one of the first few times it's heard from MSM them confirming the concept.
- " This is HUGE NEWS: Investment Banking Company Jefferies suspends short sells and naked shorts on $GME " by u/FDAz
  - News suggesting that multiple financial institutions trying to potentially control the naked shorting issue.
- " Naked Short Sellers have set our cancer research back decades from their abusive short selling. " by u/phoenixfenix
  - The ugly reality of naked short selling and just how damaging it has been to the world historically.
- " ELINA (Explain Like I'm Not Ape) " by u/writerofjots
  - In-case you're still REALLY confused, this one does a good job breaking it down into the barebones.

Just to echo my statement on the daily thread, the mod team will be removing any further content referring to the reporter or the news station in question at this time to make room for the excellent research you all do. I urge you all to rely on your humanity (apemanity?) when discussing this further.

Please remember that the reporter is an individual as well; whether intentional or not, they should not be harassed. This paints a very negative image on the apes, and we're better than that.

TLDR; Buy, Hodl, Vote.

With that being said, stay excellent to each other and stay hungry.

Please feel free to retweet my post to get superstonk's voice out there! https://twitter.com/u_sharkbaitlol/status/1401233432060076032