Title: I Think Naked Short Selling Has Caused Inflation by Increasing the Monetary Supply - What do you think?
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A bit of a thought experiment. Here is my line of thought -

All else equal, if you think of the stock market as a box where money is not created or destroyed within (if there was not fraud), then every dollar that is taken out must have been put in.

I kinda think of it like Tether - I give Tether a USD, they create a USDT. I give Tether a USDT, they destroy it and give me a USD. (I know this isn't exactly how it works, but it's the idea)

So stocks \~ all else equal \~ I buy a stock for $100 and if nothing else changes (like literally nothing - no buys, sells, or other market activity), I should be able to go back to the market and sell it for $100 (assuming there is liquidity - which there is, since the problem of providing infinite liquidity leads to the loophole that allows for naked shorts). So, if someone sells me a stock that already exists - great, no money created or destroyed. But if someone naked short sold me that stock, they just added $100 to the supply of money.

How does that money show up? In the M1 money supply. "M1 is the money supply that is composed of currency, demand deposits, other liquid deposits—which includes savings deposits." [\[Link\]](https://www.investopedia.com/terms/m/m1.asp) It makes its way to a bank and is counted towards deposits (..which work on a fractional reserve system)

[https:\/\/themacrotrend.com\/money-supply-and-stock-market\/](https://preview.redd.it/dpht5jnijsj91.png?width=1400&format;=png&auto;=webp&s;=21d9329e61ce0c59c979f855c368a668404f11a6)

"The Fed creates money by purchasing securities on the open market and adding the corresponding funds to the bank reserves of commercial banks." [\[link\]](https://www.investopedia.com/articles/investing/081415/understanding-how-federal-reserve-creates-money.asp)

"When the Fed purchases Treasury or agency securities from a dealer bank, it pays for the purchase by crediting the bank’s Federal Reserve deposit account in the amount of the purchase. The bank can then use those funds to buy other assets.."

"..banks have been shifting their assets away from loans .. and toward securities.. This pattern accelerated during periods of large-scale Fed asset purchases." [\[link\]](https://www.stlouisfed.org/on-the-economy/2022/january/have-fed-asset-purchases-reshaped-bank-balance-sheets-part-1#)

Getting back to the title, I don't think the Fed is causing inflation by increasing the money supply, I think naked short selling has caused inflation through increasing the monetary supply (and the Fed knows it!)

Taking this thought further, it starts to get pretty grim if you consider how many companies were naked short sold into bankruptcy and those naked shorts never closed. Permanent additions to the money supply that went directly to hedge funds.

I guess the silver lining is that would leave banks bag holding naked shorts in a Fed rug pull event ■

What do you think?