Title: Understanding Stock Market Loopholes - Volume 1, 2 and 3 (swipe for Vol 2 and 3)
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SO WHAT ARE NAKED SHORTS?

No, they aren't the next big fashion craze.

Usually, to "short" a stock you borrow shares that someone else owns, sell them, and wait for the price to drop. You buy shares back at a lower price, return them to their owner, and **POCKET THE PRICE DIFFERENCE**. This is a way to earn profits on a stock you think will decrease in value.

But... What if you **DIDN'T BOTHER** to borrow shares first, and just sold them with the promise that you would deliver them soon?

Those shares you sold are **NAKED SHORTS**.

How can you sell something you don't have? Well, **YOU** can't.

The big boys of Wall Street don't have to play by the same rules that you do.

Wall Street traders have the ability to sell naked shorts repeatedly, effectively **COUNTERFEITING SHARES** to flood the market with excess supply. This allows them to **MANIPULATE THE PRICE**.

Eventually, short sellers are supposed to purchase shares to fulfill the sales they made. If the price is "too high", Wall Street traders can choose to **FAIL TO DELIVER** the shares and set a new delivery date using regulatory loopholes.

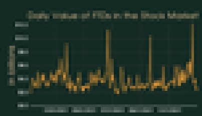
Sometimes, Wall Street traders will intentionally Fail To Deliver shares and continue to naked short sell a stock in an attempt to drive the price down lower and lower. This can go on for years at a time, with the end goal being to **DRIVE THE BUSINESS INTO BANKRUPTCY** so that the trader never has to purchase the shares they've already sold and can keep all of the profits at no additional cost.

This is **PREDATORY** naked short selling, and it is currently **RUNNING RAMPANT** in our market.

EVADING TRADING OBLIGATIONS BY HIDING FAILS-TO-DELIVER

and why the current SEC and DOJ investigation is so important

Fails-To-Deliver (FTDs) have been an ongoing problem in the market for decades



Every day, **billions of dollars of shares** fail to be delivered to brokers. These are shares that have already been paid for, often belonging in retirement accounts, and **that's just the ones we know about**.

In 2005, the SEC introduced Regulation SHO in an effort to make sure brokers actually **receive the shares owed to their clients** and to try to curb illegal naked short.

Reg SHO requires Wall Street firms who are short selling to have a "reasonable belief" that they can locate shares to borrow before they can start shorting. **They don't actually need to borrow them first though**.

They can either buy some from the stock market or they just borrow those shares that they had located earlier

Reg SHO also added deadlines by which short sellers needed to get their hands on shares to cover what they had already sold. The intent being that short sellers would deliver these shares to the purchaser - if those shares are not sent to the purchaser, **they become Fails-To-Deliver**.

Eight years later, in 2013, **the SEC issued a risk alert** about short sellers using certain trading strategies to **avoid their obligations**.

These strategies make it seem like short sellers get the shares they owe. This triggers the system to mark their deadline as met, even if they don't actually deliver the shares.

The SEC refers to these transactions as **sham close-outs** and they are more common in stocks that are hard to borrow.

Wall Street firms use these loopholes to avoid delivering the shares they owe to retail brokers without being noticed by making it difficult to identify Fails-To-Deliver at all. This leaves retail brokers with the responsibility to report that they failed to receive shares, but doing so is rare since it can spook their users.

If you want to get technical, some examples of reset transactions are buy-write transactions & married put transactions

They basically do exactly what's shown in this graphic.

These collaborative trading strategies are commonly referred to as **reset transactions** since they reset the clock for share delivery, and the SEC has declared them a violation of Reg SHO.

On February 8th 2022, the SEC and Justice Department announced a joint investigation focused on illegal short selling practices. Dozens of prominent short sellers are being scrutinized for possible **collusion and racketeering** with the beginning of the investigation dating back to early 2021.

Remember those billions of dollars worth of shares that Fail To Deliver every day? Those are the ones where the clock ran out because there was no reset transaction. Suspected evidence of reset transactions suggests that **the daily dollar value of FTDs could easily be 10 to 100 times greater than what is reported by the SEC**.

So why should you care? Well, those billions, or maybe trillions, of dollars worth of hidden FTDs means that your broker isn't receiving all of the shares you paid for. Your account may be full of IOUs.