

Title: Sadly this was from 2004 and the stuff keeps happening. (Delete if already posted)

Author: crjsmakemecry

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Url: /r/GME/comments/m2sez9/hfmm\_tactics\_cellar\_boxing/

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NOT FINANCIAL ADVICE! SPREAD THE WORD!

Couldn't sleep after reading the post about paid shills and bashes, which led me down a rabbit hole and came across this post from 04.

Some of this might be outdated, but I think the techniques HF used in the past are still being using on not just GME, but the market as a whole!

Extremely lengthy article, perfect reading for the trip to the moon!

Source:

<https://www.siliconinvestor.com/readmsg.aspx?msgid=23149848>

#### "CELLAR BOXING"

There's a form of the securities fraud known as naked short selling that is becoming very popular and lucrative to the market makers that practice it. It is known as "Cellar boxing" and it has to do with the fact that the NASD and the SEC had to arbitrarily set a minimum level at which a stock can trade. This level was set at \$.0001 or one-one hundredth of a penny. This level is appropriately referred to as "the cellar". This \$.0001 level can be used as a "backstop" for all kinds of market maker and naked short selling manipulations.

"Cellar boxing" has been one of the security frauds du jour since 1999 when the market went to a "decimalization" basis. In the pre-decimalization days the minimum market spread for most stocks was set at 1/8th of a dollar and the market makers were guaranteed a healthy "spread". Since decimalization came into effect, those one-eighth of a dollar spreads now are often only a penny as you can see in Microsoft's quote throughout the day. Where did the unscrupulous MMs go to make up for all of this lost income? They headed "south" to the OTCBB and Pink Sheets where the protective effects from naked short selling like Rule 10-a, and NASD Rules 3350, 3360, and 3370 are nonexistent.

The unique aspect of needing an arbitrary "cellar" level is that the lowest possible incremental gain above this cellar level represents a 100% spread available to MMs making a market in these securities. When compared to the typical spread in Microsoft of perhaps four-tenths of 1%, this is pretty tempting territory. In fact, when the market is no bid to \$.0001 offer there is theoretically an infinite spread.

In order to participate in "cellar boxing", the MMs first need to pummel the price per share down to these levels. The lower they can force the share price, the larger are the percentage spreads to feed off of. This is easily done via garden variety naked short selling. In fact if the MM is large enough and has enough visibility of buy and sell orders as well as order flow, he can simultaneously be acting as the conduit for the sale of nonexistent shares through Canadian co-conspiring broker/dealers and their associates with his right hand at the same time that his left hand is naked short selling into every buy order that appears through its own proprietary accounts. The key here is to be a dominant enough of a MM to have visibility of these buy orders. This is referred to as "broker/dealer internalization" or naked short selling via "desking" which refers to the market makers trading desk. While the right hand is busy flooding the victim company's market with "counterfeit" shares that can be sold at any instant in time the left hand is nullifying any upward pressure in share price by neutralizing the demand for the securities. The net effect becomes no demonstrable demand for shares and a huge oversupply of shares which induces a downward spiral in share price.

In fact, until the "beefed up" version of Rule 3370 (Affirmative determination in writing of "borrowability" by settlement date) becomes effective, U.S. MMs have been "legally" processing naked short sale orders out

of Canada and other offshore locations even though they and the clearing firms involved knew by history that these shares were in no way going to be delivered. The question that then begs to be asked is how "the system" can allow these obviously bogus sell orders to clear and settle. To find the answer to this one need look no further than to Addendum "C" to the Rules and Regulations of the NSCC subdivision of the DTCC. This gaping loophole allows the DTCC, which is basically the 11,000 b/ds and banks that we refer to as "Wall Street", to borrow shares from those investors naive enough to hold these shares in "street name" at their brokerage firm. This amounts to about 95% of us. Theoretically, this "borrow" was designed to allow trades to clear and settle that involved LEGITIMATE 1 OR 2 DAY delays in delivery. This "borrow" is done unbeknownst to the investor that purchased the shares in question and amounts to probably the largest "conflict of interest" known to mankind. The question becomes would these investors knowingly loan, without compensation, their shares to those whose intent is to bankrupt their investment if they knew that the loan process was the key mechanism needed for the naked short sellers to effect their goal? Another question that arises is should the investor's b/d who just earned a commission and therefore owes its client a fiduciary duty of care, be acting as the intermediary in this loan process keeping in mind that this b/d is being paid the cash value of the shares being loaned as a means of collateralizing the loan, all unbeknownst to his client the purchaser.

An interesting phenomenon occurs at these "cellar" levels. Since NASD Rule 3370 allows MMs to legally naked short sell into markets characterized by a plethora of buy orders at a time when few sell orders are in existence, a MM can theoretically "legally" sit at the \$.0001 level and sell nonexistent shares all day long because at no bid and \$.0001 ask there is obviously a huge disparity between buy orders and sell orders. What tends to happen is that every time the share price tries to get off of the cellar floor and onto the first step of the stairway at \$.0001 there is somebody there to step on the hands of the victim corporation's market.

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Once a given micro cap corporation is "boxed in the cellar" it doesn't have a whole lot of options to climb its way out of the cellar. One obvious option would be for it to reverse split its way out of the cellar but history has shown that these are counter-productive as the market capitalization typically gets hammered and the post split share price level starts heading back to its original pre-split level.

Another option would be to organize a sustained buying effort and muscle your way out of the cellar but typically there will, as if by magic, be a naked short sell order there to meet each and every buy order. Sometimes the shareholder base can muster up enough buying pressure to put the market at \$.0001 bid and \$.0002 offer for a limited amount of time. Later the market makers will typically pound the \$.0001 bids with a blitzkrieg of selling to wipe out all of the bids and the market goes back to no bid and \$.0001 offer. When the weak-kneed shareholders see this a few times they usually make up their mind to sell their shares the next time that a \$.0001 bid appears and to get the heck out of Dodge. This phenomenon is referred to as "shaking the tree" for weak-kneed investors and it is very effective.

At times the market will go to \$.0001 bid and \$.0003 offer. This sets up a juicy 200% spread for the MMs and tends to dissuade any buyers from reaching up to the "lofty" level of \$.0003. If a \$.0002 bid should appear from a MM not "playing ball" with the unscrupulous MMs, it will be hit so quickly that Level 2 will never reveal the existence of the bid. The \$.0001 bid at \$.0003 offer market sets up a "stalemate" wherein market makers can leisurely enjoy the huge spreads while the victim company slowly dilutes itself to death by paying the monthly bills with "real" shares sold at incredibly low levels. Since all of these development-stage corporations have to pay their monthly bills, time becomes on the side of the naked short sellers.

At times it almost seems that the unscrupulous market makers are not actively trying to kill the victim corporation but instead want to milk the situation for as long of a period of time as possible and let the corporation die a slow death by dilution. The reality is that it is extremely easy to strip away 99% of a victim company's share price or market cap and to keep the victim corporation "boxed" in the cellar, but it really is difficult to kill a corporation especially after management and the shareholder base have figured out the game that is being played at their expense.

As the weeks and months go by the market makers make a fortune with these huge percentage spreads but the net aggregate naked short positions become astronomical from all of this activity. This leads to some apprehension amongst the co-conspiring MMs. The predicament they find themselves in is that they can't even stop naked short selling into every buy order that appears because if they do the share price

will gap and this will put tremendous pressures on net capital reserves for the MMs and margin maintenance requirements for the co-conspiring hedge funds and others operating out of the more than 13,000 naked short selling margin accounts set up in Canada. And of course covering the naked short position is out of the question since they can't even stop the day-to-day naked short selling in the first place and you can't be covering at the same time you continue to naked short sell.

What typically happens in these situations is that the victim company has to massively dilute its share structure from the constant paying of the monthly burn rate with money received from the selling of "real" shares at artificially low levels. Then the goal of the naked short sellers is to point out to the investors, usually via paid "Internet bashers", that with the, let's say, 50 billion shares currently issued and outstanding, that this lousy company is not worth the \$5 million market cap it is trading at, especially if it is just a shell company whose primary business plan was wiped out by the naked short sellers' tortuous interference earlier on.

The truth of the matter is that the single biggest asset of these victim companies often becomes the astronomically large aggregate naked short position that has accumulated throughout the initial "bear raid" and also during the "cellar boxing" phase. The goal of the victim company now becomes to avoid the 3 main goals of the naked short sellers, namely: bankruptcy, a reverse split, or the forced signing of a death spiral convertible debenture out of desperation. As long as the victim company can continue to pay the monthly burn rate, then the game plan becomes to make some of the strategic moves that hundreds of victim companies have been forced into doing which includes name changes, CUSIP # changes, cancel/reissue procedures, dividend distributions, amending of by-laws and Articles of Corporation, etc. Nevada domiciled companies usually cancel all of their shares in the system, both real and fake, and force shareholders and their b/ds to PROVE the ownership of the old "real" shares before they get a new "real" share. Many also file their civil suits at this time also. This indirect forcing of hundreds of U.S. micro cap corporations to go through all of these extraneous hoops and hurdles as a means to survive, whether it be due to regulatory apathy or lack of resources, is probably one of the biggest black eyes the U.S. financial systems have ever sustained. In a perfect world it would be the regulators that periodically audit the "C" and "D" sub-accounts at the DTCC, the proprietary accounts of the MMs, clearing firms, and Canadian b/ds, and force the buy-in of counterfeit shares, many of which are hiding behind altered CUSIP #s, that are detected above the Rule 11830 guidelines for allowable "failed deliveries" of one half of 1% of the shares issued. U.S. micro cap corporations should not have to periodically "purge" their share structure of counterfeit electronic book entries but if the regulators will not do it then management has a fiduciary duty to do it.

A lot of management teams become overwhelmed with grief and guilt in regards to the huge increase in the number of shares issued and outstanding that have accumulated during their "watch". The truth however is that as long as management made the proper corporate governance moves throughout this ordeal then a huge number of resultant shares issued and outstanding is unavoidable and often indicative of an astronomically high naked short position and is nothing to be ashamed of. These massive naked short positions need to be looked upon as huge assets that need to be developed. Hopefully the regulators will come to grips with the reality of naked short selling and tactics like "Cellar boxing" and quickly address this fraud that has decimated thousands of U.S. micro cap corporations and the tens of millions of U.S. investors therein.

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Message 19890743  
mylocation.net

TL DR:

Honestly I didn't read the whole thing myself. Haven't slept, so can't really focus. Wanted to get this out there.

Buy n hold!