All of this commentary about naked shorts has been entertaining and somewhat informative. I have learned a few things, but have had far more “MC rules of investing ” reinforced. None of the comments or emails have changed my mind on how i would invest or perceive the market and its ability to regulate itself.

Here is where I stand.

1. Too many people get religious about stocks. A stock becomes personal to them. Some shareholders build communities around these stocks and treat the stocks like family members. Falling into the ” i know he is a serial killer, but he is my uncle” category.

Its a stock people. A financial investment. Rule no 1 of any smart investor is dont get attached.
People get stocks right and wrong, we all promise not to think you are a genius in a bullmarket or an idiot when you lose money on a stock. Please dont send me emails about a stock and tell me who i should talk to, or what a terrible person I am because I do or dont like a stock you have a position in.

I typically only have positions in about 10 stocks. I dont trade in and out, I tend to stick with them until I find out that Im wrong, or that the expectation I had has played out. On the long side, I stick to technology and stocks where I think I know them better than the market.

On the short side, I typically dont look for valuation plays. I look for companies with problems.

2. As far as Naked Shorts – Of all the emails that I got, and all the comments on the blog, there were a total of 6 companies listed as examples of stocks wronged by naked shorts.The datesthat the naked shorts perpetrated theirmaliciousness in these examples go back to 2001.

Six examples in 4 years is not a runaway trend.

Which leads the anti – naked consortium to suggest that this lack of examples is purely a reflection of thelack of enforcement effort by the SEC. If the impact of naked shorting is significant, and its happening rampantly across the US, why arent more companies and long investors making noise on this ?

I dont know a single Wall Street brokerage that doesnt make more money when stocks go up than when stocks go down. Where is theoutrage from them ? More curious to me is that while 6 companies have been held up as companies that have been victimized by naked shorts, shouldnt there be many, many more that have seen evidence of naked shorting in their stocks and reported it to their shareholders ?

If Naked Shorting was happening as rampantly asBob O Brien and his brethren would like us to believe,wouldnt there be more than the CEO of Overstock.com making an issue of this ?

Now Bob might argue that its happening, but the companies just arent aware of it. That the SEC and other organizations dont do a good job of educating public companies about naked shorting, its warning signs and its impact.

I dont buy that and here is why.

To pull a page from the CSI tv shows, Naked Shorting leaves “markers” that would pose red flags in the normal course of corporate business.

Companies take shareholder votes on any number of issues. In the course of counting these votes, which across the thousands of public companies, probably happens 100k times a year, I would think that somewhere across those votes, across the last however many years, some well known company would have had to report to their shareholders and possibly the authorities that they received more votes than there were shares outstanding .

Of course the easyput down to this, is that nakedshorts dont receive notifications.So I asked myself, self I said, ifso manyshareholders have been left out of the voting process, wouldnt at least oneshareholder of a major company be aware of a corporate vote and ask why they didnt receive notification ? That might be a marker that would raise a red flag.

Which might lead to the response that a company might not make a big deal of a shareholder or two asking for the ability to vote. A rounding error that happens all the time. THe SEC hasnt educated companies, so they would ignore this warning sign.

So I asked myself again. Self I said, It occurs to me that naked shorts arent sold only in small lots to individual investors. If naked shortselling is rampant, and the volumes far greater than we could ever imagine due to the lack of enforcement, then at some point, some big fund or shareholder , with an interest in corporate governance would have picked up a significant volume of “naked shares”, wouldnt they ? That fund is going to want to vote those shares. Somewhere along the line, if the problem were rampant (my new favorite word), a red flag would have popped up at some big public company that could have been traced to naked shorting.

Disney and HP were short favorites. How could there not be a HUGE number of naked shorts in thesestocks ? Very public corporate governance decisions, of which there have been many in heavily shorted, big market cap companies. Why not a single report from any of these companies at least referencing Naked Shorts as a governance issue ? THere is no question that if there are more votes or requests to vote than shares, thats a material issue.

Whether the SEC does or doesnt make enough of an effort to enforce the rules of Naked Shorting, a bigger question is whether or not its enough of an issue in US Markets for them to redirect resources. I say no. Its not a problem in the USMarkets.

3. I do think that Naked Shorting could be an issue forthinly traded companies that can be traded in Canada.
There are no rules against naked shorting in Canada and companies can be targeted. As I said in my first post, this isnt a problem for well managed, well capitalized companies. Where it could be an issue is when a company is resource constrained and struggling. That bombing a company with Naked Shorts can create a governance nuisance.

I still dont think its enough to put a company out of business that wouldnt have gone out of business anyway, but it can create costs to deal with sharedholders who want to participate in governance that the company wouldnt otherwise have to deal with.

I dont know if its possible to exclude a stock from participating in Canadian markets, but it might be something small bulletin board and pink sheet companies with legit intentions to consider looking into.

4. Finally, and this has nothing to do with Naked Shorting, I wanted to reference Mamma.com. I had purchased stock in Mamma.com in hope that it could be an up and coming search engine. I thought I had done some level of due diligence. Talked to the company management. Talked to some employees who worked in sales. Read the SEC Filings. I knew that they had a checkered past and had been linked to stock promoter Irving Kott, and that their law firm still handled some of Kotts business, but the CEO, Chairman, lawyers all said that things were reformed and the company was focused on its business.

Then the company did a PIPE financing. Im not going to discuss the good or bad of PIPE financing other than to say that to me its a huge red flag and I dont want to own stock in companies that use this method of financing .

Why? Because I dont like the idea of selling in a private placement, stock for less than the market price, and then to make matters worse, pushing the price lower with the issuance of warrants.So I sold the stock.

I bring all of this up now, because in one of the comments in the Naked Shorting thread, a poster mentioned Lines Overseas Management of Bermuda and how there had been allegations made against them (http://www.theroyalgazette.com/apps/pbcs.dll/article?AID=/20…) . That rang a bell. Turns out this was the same company that Mamma.com's current CFO used for a private placement for Mamma(http://www.sec.gov/Archives/edgar/data/839435/00010842410300…)

I said at the top that I found out some interesting things in this thread, this was probably the most interesting. I will leave you to make your own decision as to whether this connection matters or not. Im glad I sold my stock.