u/ATOBITT

A HOUSE OF CARDS

PART III

A HOUSE OF CARDS PART 3

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U/ATOBITT

4. Slimy…

IF YOU WATCHED the AMA with Wes Christian, he talks about the number of occurrences where the actual short interest is severely understated based on the data his firm obtained for legal proceedings. According to his numbers, in most cases the short interest is 50% - 150% **MORE** than what is reported by the SEC *(starting at 14:30)*.

The objective isn't to address the issue: it's to keep the issue hidden. Firms that underreport their short interest are gaming the system by taking advantage of how the short interest calculation is done. When the SEC relies on reports that broker-dealers provide, and FINRA takes YEARS to reveal the lies within those reports, the broker-dealer can lie without immediately facing the consequences. It allows these firms to operate in a high-risk environment without exposing just HOW big their risk-appetite is.

Another example that Wes mentioned was Merrill Lynch. Merrill was fined $415,000,000 *(violation 3)* in 2016 for using securities held in their customer's accounts to cover their own trades. Check out this screenshot I took from that case:

Allegations:	ON JUNE 23, 2016, THE SECURITIES AND EXCHANGE COMMISSION ("SEC") ISSUED AN ADMINISTRATIVE ORDER IN WHICH IT FOUND THAT MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED ("MERRILL LYNCH") AND MERRILL LYNCH PROFESSIONAL CLEARING CORP. ("MLPRO") (COLLECTIVELY, "ML") HAD WILLFULLY VIOLATED SECTION 15(C)(3) OF THE SECURITIES EXCHANGE ACT OF 1934 ("EXCHANGE ACT") AND RULE 15C3-3 THEREUNDER AND SECTION 17(A)(1) OF THE EXCHANGE ACT AND RULES 17A-3(A)(10) AND 17A-5(A) THEREUNDER, AND THAT MERRILL LYNCH WILLFULLY VIOLATED SECTION 17(A)(1) OF THE EXCHANGE ACT AND RULES 17A-5(D)(3) (AS IT EXISTED PRIOR TO AMENDMENTS TO RULE 17A-5 IN 2014), 17A-5(D)(2)(II), 17A-5(D)(3) AND 17A-11(E) THEREUNDER, AND EXCHANGE ACT RULE 21F-17. SPECIFICALLY, THE ORDER FOUND THAT (I) ML ENGAGED IN A SERIES OF COMPLEX TRADES THAT ALLOWED IT TO USE CUSTOMER CASH TO FINANCE FIRM INVENTORY AND (II) MERRILL LYNCH ALLOWED CERTAIN OF ITS CLEARING BANKS TO HOLD LIENS ON CUSTOMER SECURITIES.
Initiated By:	UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Date Initiated:	06/23/2016
Docket/Case Number:	3-17312

Remember when we mentioned SEA 15c3-3 in the case with Apex? They were asking customers to book short positions to either a cash account or a short margin account. SEA 15c3-3 protects those customers from allowing brokers to lend out the securities within their cash accounts…

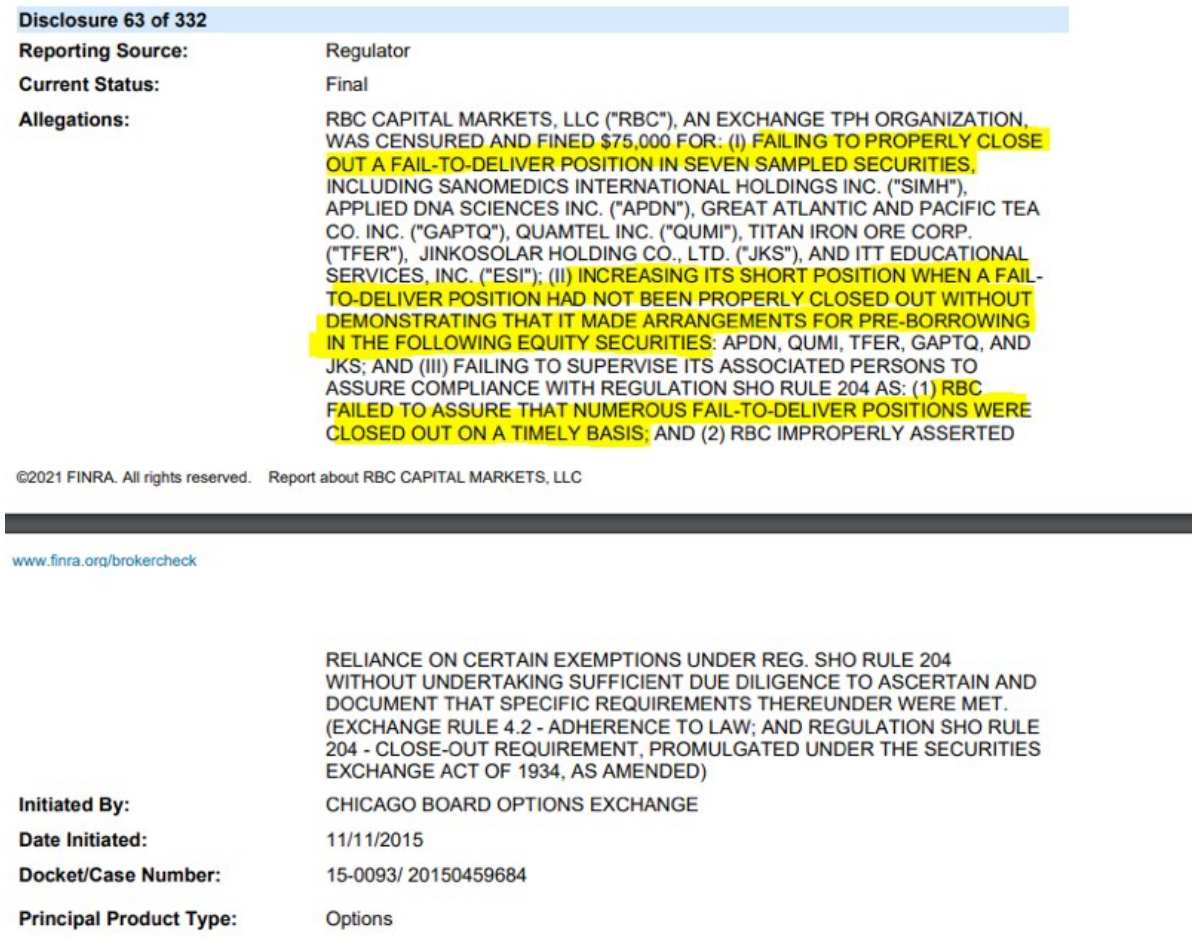
Well Merrill Lynch knocked that one right out of the f*cking park…

	COUNTERPARTY ENTITIES. THROUGH THESE TRADES, ML IMPROPERLY REDUCED BY BILLIONS OF DOLLARS THE AMOUNT IT WAS REQUIRED TO DEPOSIT IN ITS CUSTOMER RESERVE ACCOUNT. THESE TRADES EVOLVED OVER TIME AND, IN THEIR FINAL ITERATION, BECAME INSTANTANEOUS ROUNDTRIPS STRUCTURED TO PROVIDE FINANCING FOR ML'S ACTIVITIES RATHER THAN IN RESPONSE TO CUSTOMER TRADING OBJECTIVES. RESPONDENT USED THESE TRADES TO REMOVE UP TO $5 BILLION OF CUSTOMER CASH WEEK OVER WEEK FROM ITS CUSTOMER RESERVE ACCOUNT. ML THEN USED THESE FUNDS TO FINANCE ITS BUSINESS ACTIVITIES. HAD ML FAILED WHEN THE TRADES WERE IN USE, ITS CUSTOMERS WOULD HAVE BEEN EXPOSED TO A SHORTFALL OF CUSTOMER CASH IN THE CUSTOMER RESERVE ACCOUNT. THE SIGNIFICANT PENALTIES AND OTHER RELIEF IMPOSED IN THIS ORDER IN CONNECTION WITH ML'S VIOLATIONS OF THE CUSTOMER PROTECTION RULE REFLECT THE SERIOUSNESS WITH WHICH THE COMMISSION VIEWS FAILURES TO COMPLY WITH THIS RULE. AS A RESULT OF THE CONDUCT, MLPRO WILLFULLY VIOLATED SECTION 15(C)(3) OF THE EXCHANGE ACT AND RULE 15C3-3 THEREUNDER. ALSO, MLPRO WILLFULLY VIOLATED SECTION 17(A)(1) OF THE EXCHANGE ACT AND RULES 17A-3(A)(10), AND 17A-5(A).
Initiated By:	UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Merrill made it seem like the required deposit in their customer reserve account was much lower than it truly was. They wouldn't have been able to use that cash if it reduced the amount below the minimum capital requirement, so they found a way to fudge the numbers. In doing so, they managed to prevent a CODE RED while reaping the benefits of a high-risk 'opportunity'. Should Merrill have filed bankruptcy during that time, those customers would have been completely blindsided.

In the case of short selling, the *true* exposure of short interest is unknown… and I'm not just talking about the short sale indicator. When a firm fails to deliver securities that were sold short, there's a pretty good indication that they've exposed themselves to a bit of a problem.. Now imagine a case where the FTDs start piling up and they STILL continue to short sell that same security.. think I'm joking?

Check out the Royal Bank of Canada:



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Reporting Source:	Regulator
Current Status:	Final
Allegations:	RBC CAPITAL MARKETS, LLC ("RBC"), AN EXCHANGE TPH ORGANIZATION, WAS CENSURED AND FINED $75,000 FOR: (I) FAILING TO PROPERLY CLOSE OUT A FAIL-TO-DELIVER POSITION IN SEVEN SAMPLED SECURITIES, INCLUDING SANOMEDICS INTERNATIONAL HOLDINGS INC. ("SIMH"), APPLIED DNA SCIENCES INC. ("APDN"), GREAT ATLANTIC AND PACIFIC TEA CO. INC. ("GAPTQ"), QUAMTEL INC. ("QUMI"), TITAN IRON ORE CORP. ("TFER"), JINKOSOLAR HOLDING CO., LTD. ("JKS"), AND ITT EDUCATIONAL SERVICES, INC. ("ESI"); (II) INCREASING ITS SHORT POSITION WHEN A FAIL-TO-DELIVER POSITION HAD NOT BEEN PROPERLY CLOSED OUT WITHOUT DEMONSTRATING THAT IT MADE ARRANGEMENTS FOR PRE-BORROWING IN THE FOLLOWING EQUITY SECURITIES: APDN, QUMI, TFER, GAPTQ, AND JKS; AND (III) FAILING TO SUPERVISE ITS ASSOCIATED PERSONS TO ASSURE COMPLIANCE WITH REGULATION SHO RULE 204 AS: (1) RBC FAILED TO ASSURE THAT NUMEROUS FAIL-TO-DELIVER POSITIONS WERE CLOSED OUT ON A TIMELY BASIS; AND (2) RBC IMPROPERLY ASSERTED

 Report about RBC CAPITAL MARKETS, LLC

	RELIANCE ON CERTAIN EXEMPTIONS UNDER REG. SHO RULE 204 WITHOUT UNDERTAKING SUFFICIENT DUE DILIGENCE TO ASCERTAIN AND DOCUMENT THAT SPECIFIC REQUIREMENTS THEREUNDER WERE MET. (EXCHANGE RULE 4.2 - ADHERENCE TO LAW; AND REGULATION SHO RULE 204 - CLOSE-OUT REQUIREMENT, PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED)
Initiated By:	CHICAGO BOARD OPTIONS EXCHANGE
Date Initiated:	11/11/2015
Docket/Case Number:	15-0093/ 20150459684
Principal Product Type:	Options

Again… I was pretty shocked at that one. However, nothing rang-the-bell quite like this one from Goldman Sachs:

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Reporting Source: Regulator

Current Status: Final

Allegations: **04/26/2010**STIPULATION OF FACTS AND CONSENT TO PENALTY FILED BY NYSE REGULATION'S DIVISION OF ENFORCEMENT AND PENDING. CONSENTED TO FINDINGS:FOR THE SOLE PURPOSE OF SETTLING THIS DISCIPLINARY PROCEEDING, WITHOUT ADJUDICATION OF ANY ISSUES OF LAW OR FACT, AND WITHOUT ADMITTING OR DENYING ANY ALLEGATIONS OR FINDINGS REFERRED TO HEREIN, GOLDMAN SACHS EXECUTION & CLEARING, L.P.STIPULATED THAT DURING THE PERIOD OF SEPTEMBER 24, 2008 TO JANUARY 22, 2009, IT
1.VIOLATED RULE 204T(A) OF REGULATION SHO BY FAILING ON APPROXIMATELY 68 OCCASIONS TO TIMELY CLOSE OUT FAIL-TO-DELIVER POSITIONS IN CERTAIN EQUITY SECURITIES (DECEMBER 9, 2008-JANUARY 22, 2009).
2.VIOLATED RULE 204T(B) OF REGULATION SHO ON APPROXIMATELY 45 OCCASIONS BY ACCEPTING CERTAIN CUSTOMER SHORT SALE ORDERS IN EQUITY SECURITIES FOR WHICH IT HAD AN OPEN FAIL-TO-DELIVER POSITION WHILE GSEC AND THE CUSTOMER WERE IN THE "PENALTY BOX", AS THE CUSTOMER HAD NOT FIRST BORROWED SUCH SECURITIES OR ENTERED INTO A BONA FIDE ARRANGEMENT TO BORROW THE SECURITIES(DECEMBER 9, 2008 -JANUARY 22, 2009).
3.VIOLATED RULE 204T(C) OF REGULATION SHO ON APPROXIMATELY 68 OCCASIONS BY FAILING TO TIMELY NOTIFY ITS CUSTOMERS THAT THE FIRM HAD AN OPEN FAIL-TO-DELIVER POSITION THAT HAD NOT BEEN CLOSED OUT IN ACCORDANCE WITH RULE 204T(A) (DECEMBER 9, 2008-JANUARY 22, 2009).
4.VIOLATED NYSE RULE 342 BY FAILING TO REASONABLY SUPERVISE AND IMPLEMENT ADEQUATE CONTROLS, INCLUDING A SEPARATE SYSTEM OF FOLLOW-UP AND REVIEW, REASONABLY DESIGNED TO ACHIEVE COMPLIANCE WITH RULE 204T OF REGULATION SHO, AS DESCRIBED ABOVE.
STIPULATED SANCTION: CENSURE AND A $450,000 FINE. THE AMOUNT TO BE PAID TO NYSE REGULATION BY THE FIRM SHALL BE REDUCED BY THE AMOUNT PAID BY THE FIRM PURSUANT TO AN AGREEMENT TO PAY A CIVIL MONETARY PENALTY OF $225,000 TO THE UNITED STATES TREASURY IN RELATED PROCEEDINGS INSTITUTED BY THE SECURITIES AND EXCHANGE COMMISSION.

Initiated By: NEW YORK STOCK EXCHANGE

Date Initiated: 04/26/2010

Docket/Case Number: HBD# 10-NYSE-11

Goldman had 68 occasions in 4 months where they didn't close a failure-to-deliver… In 45 occasions, they CONTINUED to accept customer short sale orders in securities which it had an active failure-to-deliver…

When a firm is really starting to sweat, they pull certain tricks out of their ass to quell the situation. Again, this is nothing but smoke and mirrors because that's all they can really do. Just as Merrill Lynch artificially lowered their customer reserve deposit, other firms make it look like they cover their short positions.

One of the ways they do this is by short selling a SH*T load of shares right before a buy-in… Since we're talking about Goldman Sachs, this seems like a great time to showcase their experience with this..

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Reporting Source:	Regulator
Current Status:	Final
Allegations:	WITHOUT ADMITTING OR DENYING THE FINDINGS, THE FIRM CONSENTED TO THE SANCTIONS AND TO THE ENTRY OF FINDINGS THAT IT DID NOT, AS A GENERAL PRACTICE, ALLOCATE RESPONSIBILITY FOR CLOSING OUT FAIL TO DELIVER POSITIONS TO ITS BROKER-DEALER CLIENTS UNDER REGULATION SHO RULES 203(B)(3)(VI), 204T(D), OR 204(D). THE FINDINGS STATED THAT THE FIRM'S SUPERVISORY POLICIES AND PROCEDURES FAILED TO ADDRESS THAT CERTAIN OPTIONS MARKET MAKER (OMM) CLIENTS OF THE FIRM HAD, ON A NUMBER OF OCCASIONS, SHORT SOLD A SECURITY ON THE SAME DAY THAT THEY WERE NOTIFIED THAT THEY WERE BEING "BOUGHT IN" BY THE FIRM IN THAT SAME SECURITY, TYPICALLY IN AMOUNTS EQUAL TO OR GREATER THAN THEIR ATTRIBUTED PORTION OF THE NUMBER OF SHARES PURCHASED BY THE FIRM IN AN EFFORT TO MEET ITS CLOSE-OUT OBLIGATIONS. THESE SHORT SALES WOULD OFFSET, IN WHOLE OR IN PART, THE EFFECT OF THE FIRM'S PURCHASES ON THE FIRM'S NET FAIL TO DELIVER POSITION IN THE NATIONAL SECURITIES CLEARING CORPORATION'S CONTINUOUS NET SETTLEMENT SYSTEM (CNS). THE FIRM FAILED TO IMPLEMENT ADEQUATE SUPERVISORY POLICIES AND PROCEDURES REASONABLY DESIGNED TO ADDRESS THE IMPACT OF OMM ACTIVITY ON THE CLOSE-OUT DATE ON THE FIRM'S NET FAIL TO DELIVER POSITION TO CNS BY REQUIRING THE FIRM TO ALLOCATE RESPONSIBILITY FOR THE CLOSE OUT TO ITS BROKER-DEALER CLIENTS OR BY TAKING OTHER APPROPRIATE STEPS TO DETERMINE WHETHER THE FIRM WAS A NET PURCHASER, OR NET FLAT OR NET LONG, AS APPLICABLE, ON THE CLOSE-OUT DATE. THE FIRM'S SUPERVISORY POLICIES AND PROCEDURES DID NOT PROVIDE FOR SUPERVISION REASONABLY DESIGNED TO ACHIEVE COMPLIANCE WITH THE APPLICABLE SECURITIES LAWS AND REGULATIONS, INCLUDING SEC AND FINRA RULES, REGARDING THE CLOSE-OUT OF FAIL TO DELIVER POSITIONS AS REQUIRED BY REGULATION SHO RULES 203(B)(3), 204T(A), AND 204(A).

I promise… It really is as dumb as it sounds…

So the perception here is when Goldman's client has a FTD and they find out a buy-in is coming, the required buy-in would obviously be too extreme for the client to handle.. So they begin to buy those shares while simultaneously shorting AT LEAST the same amount they were required to purchase…

Have you ever failed to repay a loan so you went to another bank and got a loan to cover the first one? Well that's exactly what this is… I know what you're probably thinking… "didn't that just kick the can down the road?". The answer is YES: it didn't actually solve anything..

There's still one more citation that Goldman received which truly represents the pinnacle of *no-sh*ts-given.* After I cover this, I don't know

how anyone could argue the systematic risks that exist within the securities lending business.. Check it out:

Reporting Source:	Regulator
Current Status:	Final
Allegations:	SEC ADMIN RELEASE 34-76899/JANUARY 14, 2016: THE SECURITIES AND EXCHANGE COMMISSION (COMMISSION) DEEMS IT APPROPRIATE AND IN THE PUBLIC INTEREST THAT PUBLIC ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS BE, AND HEREBY ARE, INSTITUTED PURSUANT TO SECTIONS 15(B) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934 (EXCHANGE ACT) AGAINST GOLDMAN, SACHS & CO. THESE PROCEEDINGS ARISE OUT OF PRACTICES ENGAGED IN BY GOLDMAN'S SECURITIES LENDING DEMAND TEAM (THE DEMAND TEAM), BETWEEN NOVEMBER 2008 AND MID-2013, IN PROVIDING AND DOCUMENTING "LOCATES" TO ENABLE ITS CUSTOMERS TO EXECUTE SHORT SALES. BETWEEN NOVEMBER 2008 AND MID-2013, TO COMPLY WITH REG SHO, GOLDMAN EMPLOYED A SYSTEM WHERE THE VAST MAJORITY OF CUSTOMER SHORT SALE LOCATE REQUESTS WERE HANDLED BY AN AUTOMATED MODEL THAT WOULD EITHER GRANT, IN WHOLE OR IN PART (OR FILL), DENY, OR ROUTE (OR PEND) THE REQUESTS FOR FURTHER REVIEW TO THE DEMAND TEAM, A GROUP OF TEN TO TWELVE INDIVIDUALS WHO WORKED ON GOLDMAN'S SECURITIES LENDING DESK. THE AUTOMATED MODEL WOULD REVIEW AND FILL LOCATE REQUESTS BASED ON CERTAIN AVAILABLE INVENTORY REPORTED TO GOLDMAN BY CERTAIN LENDING BANKS AND BROKERAGES THAT FED INTO GOLDMAN'S AUTOMATED MODEL AT THE START OF EACH DAY AFTER BEING REDUCED BY GOLDMAN BASED ON THEIR EXPERIENCE WITH VARIOUS LENDERS (THE START-OF-DAY INVENTORY). AS THE AUTOMATED MODEL PROCESSED LOCATE REQUESTS, IT REDUCED THAT START-OF-DAY INVENTORY ON A 1:1 BASIS FOR ALL SHARES THAT WERE USED TO GRANT LOCATE REQUESTS (REGARDLESS OF WHETHER THE CLIENT ACTUALLY USED THE LOCATE). WHEN THE START-OF-DAY INVENTORY WAS DEPLETED IN THAT MANNER, THE AUTOMATED MODEL WOULD PEND SUBSEQUENT LOCATE REQUESTS TO THE DEMAND TEAM FOR FURTHER REVIEW AND PROCESSING. OVER THE COURSE OF THE RELEVANT PERIOD, THE NUMBER OF LOCATE REQUESTS THAT PENDED TO THE DEMAND TEAM GREW SIGNIFICANTLY, REACHING MORE THAN 20,000 LOCATE REQUESTS PER DAY AT ITS PEAK. THE VOLUME OF LOCATE REQUESTS BECAME FAR MORE THAN THE DEMAND TEAM COULD MANUALLY HANDLE ON A REQUEST-BY-REQUEST BASIS. THUS, INSTEAD OF MANUALLY IDENTIFYING AN ALTERNATIVE SOURCE OF SECURITIES TO SATISFY THESE PENDED REQUESTS, THE DEMAND TEAM PROCESSED APPROXIMATELY 98 PERCENT OF THE PENDED REQUESTS BY RELYING ON A FUNCTION OF GOLDMAN'S ORDER MANAGEMENT SYSTEM REFERRED TO AS "FILL FROM AUTOLOCATE," WHICH WAS ACTIVATED BY THE "F3" KEY. THIS FUNCTION ENABLED THE DEMAND TEAM TO CAUSE GOLDMAN'S AUTOMATED MODEL TO FILL LOCATE REQUESTS BASED ON THE AMOUNT OF INVENTORY THAT

For 5 years, Goldman relied on a team of 10-12 individuals to locate shares to be used by its clients for short selling. This group was known as the “demand team”. Naturally, as the number of requests coming in the door started to increase, it became difficult for the team to properly document all

of them. The volume peaked at 20,000 requests PER DAY, but the number of individuals that handled this job stayed the same.

Obviously, this became too much for them to handle so they opted out of the manual process and found another solution- the F3 key….

Yes- the F3 key… This button activated an autofill system which completed **98% of Goldman's orders to locate shares**

	EXISTED AT THE START OF THE DAY (I.E., THE START-OF-DAY INVENTORY LEVEL BEFORE ANY LOCATES WERE GRANTED), EVEN THOUGH GOLDMAN'S AUTOMATED MODEL HAD ALREADY TREATED THE START-OF-DAY INVENTORY AS DEPLETED. IN PROCESSING LOCATE REQUESTS USING THE "F3" FUNCTION, THE DEMAND TEAM TYPICALLY DID NOT CHECK ALTERNATIVE SOURCES OF SECURITIES OR PERFORM A MEANINGFUL FURTHER REVIEW. INSTEAD, THEY RELIED ON THEIR GENERAL BELIEF THAT GOLDMAN'S AUTOMATED MODEL WAS CONSERVATIVE AND THAT THE PROVISION OF ADDITIONAL LOCATES WOULD NOT RESULT IN FAILURES TO DELIVER THE SECURITIES IF AND WHEN DUE FOR SETTLEMENT. THE DEMAND TEAM DID NOT DOCUMENT THE BASIS FOR THIS GENERAL BELIEF. ADDITIONALLY, GOLDMAN'S DOCUMENTATION OF ITS COMPLIANCE WITH REG SHO IN ITS LOCATE LOG WAS INACCURATE IN THAT GOLDMAN FAILED TO SUFFICIENTLY DIFFERENTIATE BETWEEN LOCATES THAT WERE FILLED BY ITS AUTOMATED MODEL AND LOCATES THAT WERE FILLED BY THE DEMAND TEAM USING THE "F3" FUNCTION. IN BOTH CASES, THE LOCATE LOG SIMPLY CONTAINED THE TERM "AUTOLOCATE" TO REFER TO THE START-OF-DAY INVENTORY UTILIZED BY GOLDMAN'S AUTOMATED MODEL AS THE SOURCE OF SECURITIES SUPPORTING THE LOCATE. AS A RESULT OF THE CONDUCT DESCRIBED ABOVE, GOLDMAN WILLFULLY VIOLATED SECTION 17(A) OF THE EXCHANGE ACT AND RULES 203(B)(1)AND 203(B)(1)(III) OF REGULATION SHO PROMULGATED UNDER THE EXCHANGE ACT.
Initiated By:	UNITED STATES SECURITIES AND EXCHANGE COMMISSION

The problem with Goldman's autofill system was that it used the number of shares available to borrow at the beginning of that day, which had already been accounted for. After using the auto-locate feature, the demand team didn't even verify the accuracy of the autofill feature or document which method was used to locate the shares for each order… and this happened for 5 years..

Just goes to show how dedicated firms like Goldman Sachs truly are to the smallest of details, you know? Great f*cking work, guys.

By the way, I have to show one of Goldman's short sale indicator violations… It's too good to pass up.

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Reporting Source:	Regulator
Current Status:	Final
Allegations:	FINRA RULES 2010, 4560, NASD RULES 2110, 3010, 3360, NYSE RULE 421 - GOLDMAN SACHS EXECUTION & CLEARING, L.P., FOR SHORT INTEREST REPORTING CYCLES FOR ABOUT FOUR YEARS, SUBMITTED REPORTS THAT DID NOT INCLUDE SHORT INTEREST POSITIONS OF OVER 380 MILLION SHARES. THE FIRM SUBMITTED TO FINRA AND THE NEW YORK STOCK EXCHANGE SHORT INTEREST POSITION REPORTS THAT WERE INCORRECT OR FAILED TO REPORT SHORT INTEREST POSITIONS. THE FIRM'S SUPERVISORY SYSTEM DID NOT PROVIDE FOR SUPERVISION REASONABLY DESIGNED TO ACHIEVE COMPLIANCE WITH NASD, NYSE AND FINRA RULES REGARDING SHORT INTEREST REPORTING.
Initiated By:	FINRA
Date Initiated:	01/07/2014

At some point, you just have to laugh at these ass clowns… I mean seriously… one violation for a 4 year period involving over 380,000,000 short interest positions… they have plenty of other short interest violations, I just laughed at how the magnitude of this one was summarized by FINRA with 10 lines and roughly 4 minutes... whoever wrote that one must have been late for lunch..

The last thing I'd like to note here is the way in which short sellers use options to "cover" their positions. Wes gave a great overview of this in the AMA *(starting at 6:25)*. Basically, one group will buy puts and another group buys calls. This creates a synthetic share that is only provided if the option is activated. Regardless, short sellers will use that synthetic share to cover their short position and the regulators actually accept it…

However, as Wes points out, most of those options expire without being activated which means the share is never delivered. This expiration can be set months down the road and allows the short seller to keep kicking the can.

I doubt I need to say this, but we all remember the wild options activity that was happening shortly after GameStop spiked in January. u/HeyItsPixel was one of the first to point this out. While a lot of that activity was on the retail front, I suspect a lot of it was done by short sellers to cover those positions.

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5. Hedgies are f*cked…

I'm officially +20 pages deep and there's still so much I'd like to say. It's best saved for another time and another post, I suppose. So I guess I'll wrap all of this up with some of the best news I can possibly provide…

It all started with a 73 page PDF that was published in 2005 by a silverback named John D. Finnerty.

John was a Professor of Finance at Fordham University when he published *"short selling, death spiral convertibles, and the profitability of stock manipulation"*. The document is loaded with sh*t that's incredibly relevant today, especially when it comes to naked short selling. He dives into the exact formula that short sellers use, which is far beyond what my wrinkled brain can interpret, alone…

..However, when firms are naked shorting a company with the goal of bankrupting them, they leave footprints which are only explained by this event. The proof is in the pudding, so to speak..

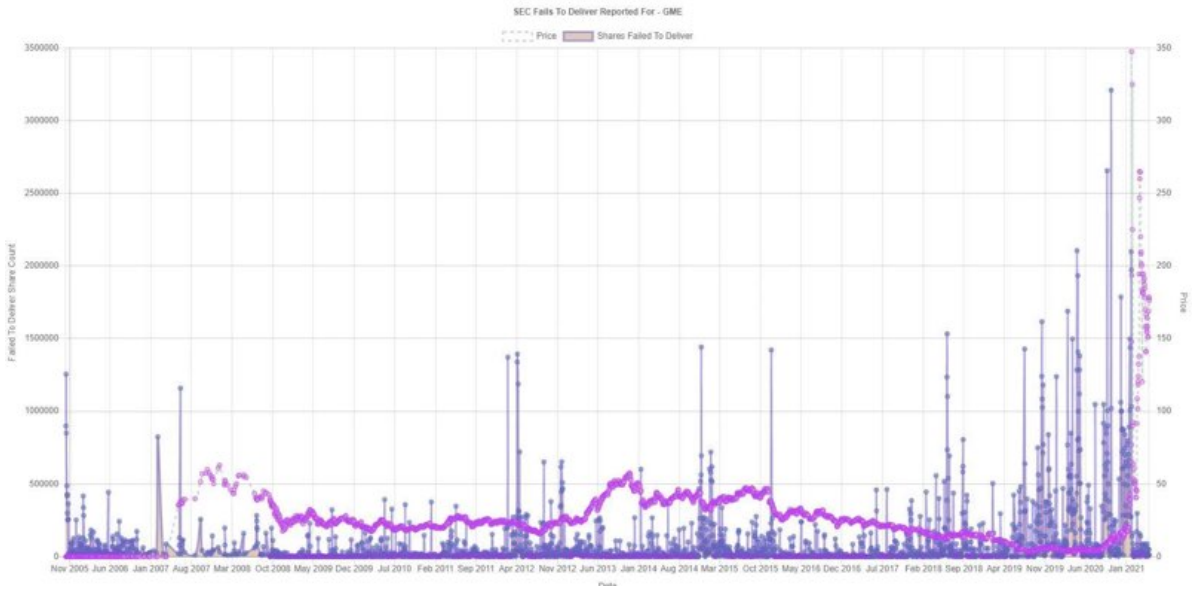
Building a short position of H/B to drive $P^*(3)$ to zero would involve naked shorting more shares than the firm has outstanding because $H/B > (A - L)/B$.[65] The manipulator can not drive the share price close to zero unless he can naked short an extraordinary number of shares.[66] This form of manipulation would result in a precipitous drop in the firm's share price to well below its intrinsic value, unusually heavy trading volume, and unusually large and persistent fails to deliver at the NSCC. Preventing this activity requires the clearing house to enforce its buy-in rules for fails to deliver and to impose penalties on short positions that are rolled over for an extended period, which is the purpose behind new Regulation SHO (SEC, 2004).

Any of this sound familiar??

"The manipulator can not drive the share price close to zero unless he can naked short an extraordinary number of shares… this form of manipulation would result in… unusually heavy trading volume, and unusually large and persistent fails to deliver at the NSCC".

Anyone else remember the volume in GME during the run-up in January? The total volume traded between **1/31/2021 and 2/5/2021 was 1,508,793,439 shares**, or an average daily trade volume of **88,752,555 shares.** On 1/22/2021, the volume reached 197,157,946… that's roughly 3x the number of shares that exist..

if this doesn't sound like unusual volume then I'm not sure what is. Furthermore, the FTD report on GameStop was through the roof during this time:



invest in its equity. Customers may cease doing business with it as well because its warranties will appear worthless. Eventually, the firm will exhaust its liquidity and have to file for bankruptcy. The manipulator will be relieved of its obligation to cover its short position if the firm's shares are cancelled in bankruptcy.[68] This scenario leads to a zero cost of covering the short positions. This form of manipulation may involve a single manipulator or a group of manipulators who act in concert and make an unusually high percentage of apparently unlucky equity investments that become worthless in bankruptcy, all of which have unusually high trading volume, large and persistent fails to deliver, and a precipitous drop in share price below the stock's intrinsic value (often to just pennies a share).

Notice the statement where the manipulator will be relieved of its obligation to cover **IF** the firm's shares are cancelled in bankruptcy? Did you happen to see footnotes 65 & 66 in the first screenshot of his PDF? It references a company that he used for his analysis…

[66] The NASD reported that Charter Communications had short interest of 88,520,000 shares in January 2005, but Charter reported having outstanding shares minus shares held by insiders of only 36,600,000 shares.

Charter Communications had a whopping **241.8% short float in 2005**… **The ONLY way the manipulator could have escaped this was by bankrupting the company and relieving the obligation to repurchase those shares…**

Guess what happened to Charter? They filed for bankruptcy in 2009…

However, unlike John's example where naked short sellers were driving down the price without opposition, GameStop had extremely high demand from retail investors to counter this activity. As I have discussed with Dr. T and Carl Hagberg, the run-up in volume during January and February was largely conducted by naked short sellers in an attempt to suppress the share

price. As I have shown in the example with Goldman Sachs, firms will short sell during a buy-in for the same exact reason. To stabilize the price, you must stabilize supply and demand.

…You know what Charter didn't have?

AN ARMY OF APES TO HODL THE STONK

DIAMOND. F*CKING. HANDS