

Matt Taibbi Offers How-To Video On Naked Short Selling

By GREG MICHAELS

So after almost a year of hearing about how naked short selling nearly destroyed the human race, you've decided that it's in your best interest to know exactly what people are talking about. Given all the attention its received, you might even want to know how to do it yourself. But you've been looking for a step-by-step primer on the mechanics of naked short selling and haven't found the right one yet. You want something that provides text and video detailing what to do while also describing the grey regulatory area you're taking advantage of. Look no further. Thanks to MT, you've got one now.

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:00 If you look at the display in the first seconds, you will see that the customer is trying to sell 100 shares of BANK X short. You can tell it's a short sale by the purple box near the top marked "Short." To the left of that, you'll see that "order quantity" is 100.

:01 Now if you look at the bottom of the display, you can see that the trade has been rejected, because BANK X that day is on the hard-to-borrow list. It reads REJ – HARD TO BORROW: SHRT 100. Without getting too technical, you don't need a formal locate when a stock is on something called the "easy to borrow" list. But BANK X shares that day were not easy to find (without digressing too much into other complicated realms, there was something going on with BANK X that day that was inspiring lots of people to snatch up its shares). So the trade was rejected temporarily, and the trader was then forced to ask for a formal locate of BANK X stock.

:07 A prompt comes onscreen. Through this box, the customer is going to ask Penson to locate shares in BANK X. But how many shares? This is where it gets interesting.

:11 At eleven seconds, you can see the customer start to fill in the box in the middle of the prompt where it reads, "Locate quantity." To disguise the identity of the trader, I've blocked out the first number in the sequence. But you can see that the number is in the tens of billions of shares. Now, the float for BANK X that day was only five and a half billion, meaning there were only five and a half billion BANK X shares in circulation. Without disclosing the actual number, I can tell you that the customer asked for a locate of shares in an amount that was at least five times the number of BANK X shares actually in circulation. Such a locate, in other words, could not possibly be filled.

:17 At seventeen seconds, at the bottom, you see that the firm Penson has now

approved the trade and" located" the multibillion amount of shares. The trade goes through.
