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## Ending Stock Market Manipulation

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“Naked short selling” and the impact of manipulative behavior on investors and markets have been big news recently. Unfortunately, there’s also been a lot of misinformation about what it really means for investors.

First, remember that legitimate short selling is a good thing. It is simply a bet *against* the future value of a stock, and it helps markets deflate “irrational exuberance.”

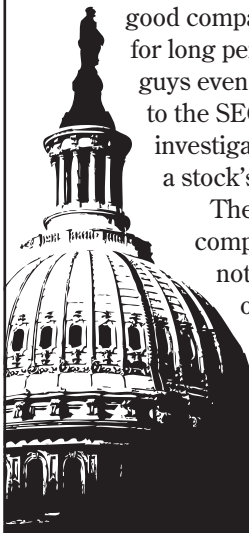
But people who make bets sometimes try to cheat. “Pump and dump” is a well-known way for criminals to use rumors to illegally increase stock values. (It was even featured on the *Sopranos*.) The same thing in reverse is called “short and distort,” where people spread false bad news about a company in order to make short positions pay off. This can have a terrible impact on good companies and their investors for long periods of time. Some bad guys even send false information to the SEC in an attempt to spawn investigations that will drive down a stock’s price for years.

The U.S. Chamber has long complained that the SEC has not done enough to stamp out short and distort schemes.

SEC Chairman Cox took a few small steps last week. He called for more investigations into rumor mongering on Wall Street. He also implemented temporary process limits that should reduce naked short selling in 19 high-profile financial stocks. Naked short selling is a technique used by short and distort manipulators that involves selling stock that may not even exist.

Neither of these actions were earth shattering, but at least the SEC acknowledged some problems. There have been companies parked for *years* on the “Threshold List” of those victimized by naked short selling. But much tougher and more extensive enforcement actions are needed. Enforcement officials need incentives to pursue these tough cases—as it’s often more tempting to focus on catching companies with meaningless accounting errors that are willing to pay big fines. Additional procedural safeguards must also be put in place to make fraudulent naked short selling and other manipulative techniques harder, while preserving legitimate investors’ ability to easily short stocks.

We applauded the SEC’s recent actions. However, crime doesn’t sleep and many companies and investors remain vulnerable to short and distort frauds. The SEC should extend and expand its new measures to protect additional companies. Then, it should work quickly to find permanent solutions to rid our markets of the scourge of short and distort.



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