

The Fox isn't Guarding the Hen House, No One Is
by James Cummins
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There has been a quiet news story surrounding the concept of illegal naked shorting circulating through the news media for several years now. The companies involved have varied, and can be found on the Regulation SHO Threshold list, most recently including large companies like Imax Corporation (IMAX), Merrill Lynch & Co., Inc (MTTT) and Overstock.com (OSTK).

Dateline NBC released a short story on it in August of 2005 and CNBC has had guests on to discuss the topic including writer David Patch of the StockGate newsletter and President Patrick Byrne of Overstock.com. Euromoney, one of the top financial publications in the world, released a March 2005 feature story on the subject and Time Magazine recently published an extensive story on it as well. Beyond that, sagas including that of the mysterious Bob O'Brien of the National Coalition Against Naked Shorts (NCANS) have been investigated by The Wall Street Journal and The New York Post.

Yet much more is left to be said and it leaves one to wonder why no one has said it. Dateline had much more information than they ended up releasing to the public and even Euromoney has unreleased interviews with a DTCC related figure they've chosen to keep in 'the vault'. Why all the secrecy? Why all the pseudonyms and promises of anonymity behind the major sources of our information on this topic?

There have been threats issued on major figures in the fight against illegal naked short selling, some more mysterious than others, that have pushed people into the shadows. David Patch, Egeltech CEO Rod Young, Bob O'Brien, lawyer Wes Christian who is representing many law suits on behalf of companies that have been hurt by naked short selling, and others have complained of both direct and indirect threats on their life. Speculation has arisen around media tampering by DTCC against FinancialWire and Dateline. Those that know the most about this topic claim that it can be just too dangerous to release too much information, when they do not feel they have the support of the American authorities whom are supposed to be in place for the public's protection.

A lot of pressure has been put on institutions like DTCC and the SEC to do something about the problem of illegal naked short selling, and their response to that pressure has left many investors puzzled as to why so little action has been taken. Sometimes it can almost seem as if those regulators and institutions are working against those trying to curb the abuses. Yet the reasons for these appearances are not as clear as some would make them out to be.

According to Brent Baker, former enforcement lawyer at the SEC, the reasons are perhaps more disturbing than what is publicized. The SEC just doesn't have the staff to combat the problem, or the resources. For years the SEC was unable to control the infamous 'pump-and-dump' schemes of stock market criminals across the country, and

actually developed a culture that believed that illegal naked short selling may be a counterbalancing force to the pump-and-dump. The SEC saw that the two forms of abuses had a mildly equalizing effect on one another, which made their job easier. However, Baker states that, “The SEC looks at naked short selling as, they are looking at the old version of what naked short selling used to be... They don’t realize that naked short selling has grown up, it is now a sophisticated cartel of different hedge funds that use abusive naked short selling as part of their *business model*.”

According to the numbers of market expert C. Austin Burrell, illegal naked short selling has arguably become a far nastier problem than it was ten years ago when this SEC culture became ingrained. Today the balance has become less of a factor and illegal naked short selling has become a relatively unstoppable problem in its own right. By unstoppable I do not mean that there is no way to stop it from occurring, I mean that from the perspective of the SEC there is not a lot they can do. According to Baker, the SEC is so understaffed that there is no possible way that they could ever take this problem head on. In addition, the staff is allotted far less resources than would be adequate to combat the issue of illegal naked short selling.

Baker states, “I think they are [in over their heads]. They are definitely bright enough to handle this, but they just do not have the right tools or proper tools to deal with it. Congress just doesn’t give the SEC what it’s due in terms of funding and authority... The SEC has like 1500 staff to police the entire securities market, the largest economy on the planet, it is just a joke. And conditions have gotten worse over the last ten years, not better... The SEC does know the scope of naked short selling, they know it’s rampant, they just don’t know the level of sophistication.”

The SEC, according to one of its former well tenured and well respected employees (Baker), is unable to police the market. Well then, who is policing the market? Placing the blame directly on the SEC becomes a bit faulty when it is discovered that ultimately their ability to act is undercut by Congress. “Naked short selling cannot be controlled, and it’s not just funding, there need to be major changes in the laws. Congress cries that the SEC isn’t doing its job, but then they turn around and don’t give them the funding to do so,” states Baker in description of the numbers games that are being played. Congress has not allocated adequate funds to the SEC, thus the SEC is rendered inefficient and Congress refuses to allocate more funds. Catch 22.

To say that Congress does not know of this problem is not accurate. Senator Bennett of Utah has brought the issue into Committee sessions, yet little was done about the information available to them. C. Austin Burrell has had reports requested by aides of White House staffer Alberto Gonzalez and most recently by White House staffer and former Supreme Court nominee Harriet Myers to garner more information, yet still nothing significant has been done to curb the problem.

Regulation SHO was put in place by the SEC to try and curb the problem, but there have been far more negative reviews of its success than positive ones. One of the major concerns has been the rationale behind the grandfathering of all fails, including ones

resulting from illegal actions, which was a major part of Reg. SHO. According to Brent Baker, grandfathering the fails resulting from illegal naked shorting (as well as other causes) was done because the SEC felt that if those fails were not grandfathered there was a great chance the system could collapse. Illegal naked shorting has brought the American stock markets to the point where if forcefully removed, economic recession could ensue.

So everybody who needs to know about it knows about it, and nothing has been done. It has been admitted that the problem is so rampant that it could bring the American economy to its knees. What more needs to be said? Unfortunately there is something else out there which may tip the scales, and that is a connection between naked short selling and economic warfare, executed against the United States by its enemies and even by some of its friends.

James Cummins is an independent journalist and co-author of forthcoming book 'The Midas Touch: Counterfeit Stocks, Naked Short Selling and Selling America Short'. He has also worked with multiple corporate executives in different sectors in a ghostwriting capacity, none of which have ever been employed in the companies named within this article.

The Fox Isn't Guarding The Hen House; No One Is: Part Two
By James Cummins

The December 13, 2005 SHO Threshold List saw Merrill Lynch & Co., Inc S&P 5 MTTTS (MTTT), Delta Air Lines Inc. (DALRQ), Northwest Airlines (NWACQ) and Fidelity (ONEQ) listed among more than 180 other companies. These companies were the four companies with the highest number of employees on the Threshold list, combined alongside the rest of the top 15 companies in this regard they represent a total of over 305,000 jobs at risk due to naked short selling practices.

In speculation by those who do not think naked shorting poses a threat to the American economy, such as Mark Cuban on his site Blogmaverick, it has been stated that companies that appear on the Threshold list are represented by grumbling CEOs or manipulative pump-and-dump investors. However when the numbers of employees are observed within these listed companies, as well as how long some have them have been around, that explanation seems flawed. Especially in research of exactly who's been investing in these companies in the first place.

Take Pacific Ethanol Inc. (NASDAQ: PEIX) for example, a company that has only 12 full time employees. This company seems to be one of those that such speculation hinges upon, a small company that continues to waft along on the waves of the stock market. Yet in reality, a 30% stake in the company was purchased in 2005 by none other than the wealthiest man in the world, Bill Gates. To state that all companies that appear to be the victim of naked short selling are in fact under the thumb of manipulative investors seems to be a generalization that holds little water, when such a generalization refers to Bill Gates as a stock manipulator.

If the companies on the Threshold list follow the route of other companies that have been victimized by naked short selling practices in the past to its natural end, bankruptcy, over three hundred thousand jobs will be lost. Men such as C. Austin Burrell and Dr. James Angel of Georgetown University have mentioned that over 7,000 companies may have been affected over the past decade. Using the Threshold list as a benchmark for the kinds of companies that fall victim to naked short selling, if over 7,000 companies have truly fallen victim, that means millions upon millions of jobs have been lost due to this insidious practice. Millions of jobs, and if you count the potential jobs young companies could have created if they had not been snuffed out, tens of millions of jobs. This is what has been claimed by C. Austin Burrell and the basic tenant of his observation has been confirmed by Dr. James Angel.

Now these kinds of numbers do not seem to be something even a cutthroat investor could live with. Dicing up the American economy does seem to do any one any good at all, which is one of the reasons that regulators have been slow to recognize the problem according to ex-SEC enforcer Brent Baker- it doesn't make very much sense, and concern over the issue seems alarmist to those inside the SEC. It makes no sense, that is until you look a little deeper.

If it makes no sense that typical American investors would be interested in causing such harm to the American economy, then it follows that perhaps the driving force behind some of the naked shorting may not be occurring through American investment. It seems very much like it is being done to cause intentional harm to the American economy, and there is evidence that this is exactly what is going on.

For instance, speculation around the use of stock manipulation by Terrorists first surfaced in the weeks following September 11, 2001, when it was discovered that the specific airlines involved in the crashing planes and several companies within the World Trade Center itself had seen large short positions created by someone in their stocks the week prior to the disaster. It was soon learned that the short positions were created beginning the very day that Osama Bin Laden had learned of the exact date of the attack, and not a day earlier or later, according to Dr. Allen M. Poteshman of the University of Illinois at Urbana-Champaign. Bin Laden had been known in the past as a savvy investor, and it was reported by the International Policy Institute for Counter-Terrorism that September that, "If in fact the Black Tuesday attacks, and the associated securities transactions, were made under the orders from Osama Bin Laden, then we are dealing with an expert in masking ownership of corporations and making covert deals". It was suggested that if it was Bin Laden behind the short positions, there was no way it could ever be rooted out. The issue did not go much further, lost in the wake of other aspects of the post 9/11 policy adjustments. No one claimed the profits from these short sales, and regulators could not find a direct link between the Terrorists and the profits. However, if Bin Laden had nothing to do with the short positions before, then the potential for such actions in the future was presented to him through the array of media reports covering the 9/11 shorts.

Four years later, a similar incident would occur, the London bomb attacks, and speculation would rise again. It was reported by Joseph Farah soon after the attacks that: "...it appears someone profited by short selling the British pound in the ten days leading up to the attacks. The pound fell about six percent (approximately 1.82 to 1.72) against the dollar for no apparent reason, until, of course, the terror attacks sent the British markets reeling still further. 'This was an almost unprecedented weakness and far too steep to be a coincidence,' one economist with more than 35 years of experience in the investment industry, to (us). 'That is, after all, an annualized rate of loss of well over 100 percent. ...Currencies of established countries simply do not fall that fast based upon any kind of economic or financial analysis,' said the economist. 'Somebody somewhere knew something. Or maybe I should say 'somebodies.'"

Again the leads on who had scored this unnatural profit led to dead-ends. Of course neither of these situations revealed a direct paper trail between the Terrorists and the stock market.

In 2001 around the time of the September 11 attacks, there were many other financial deals going down with apparent urgency. One of those deals came from soon-to-be convicted stock manipulator Amr Elgindy. Elgindy was a well-known face even before his arrest. As a major league short seller, he had appeared on cable news programs as an expert and was even the subject of books. It was a shock when he was arrested in 2002

under the suspicion that he had involved himself in stock manipulations in trying to assure that his short positions were safe bets.

Yet even more of a shock came from the accusations that Elgindy may have had pre-knowledge of a stock market crash that was predicted to occur on September 11 by those in terrorist circles. There is no evidence that he knew of the attacks; however, it was found that on September 10, Elgindy called his broker frantically to try and move his children's accounts into safety and away from the stock market, due to the extraordinarily prescient fears he expressed that something very bad was about to occur within the American markets, according to C. Austin Burrell.

How could Elgindy have been informed of such an event? No one knows for sure, however it has been exposed that Elgindy's connection was partially established to Terrorism through his generous endowments to the Mercy International Muslim charity in New York City, according to one anonymous source close to the investigations. Mercy International has since been exposed as an Al Qaeda front, which filters funds into the terrorist networks.

The likelihood that Elgindy was giving to the charity without knowledge of where the money was going fell short when it was exposed, according to the anonymous FBI whistleblower that led to the conviction of Elgindy, that his parents were major fundraisers and supporters of Sami al Arian, the head of al Qaeda in the United States. In addition, this source confirms that Elgindy did also funnel his profits from naked short selling to HAMAS. His parents however, both Egyptian doctors, went far beyond this and actually fronted several charity groups in the 1970s whose real purpose was to divert money to terrorist organizations according to this same source.

In addition, a subtle truth arises in this situation. If Elgindy did know about 9/11, then he may have been the only man with that knowledge astute enough to recognize the effects it would have on the markets, although that seems fairly unlikely. If Elgindy did not know about the actual attacks, then he must have been informed by someone of coming troubles in the stock markets without explained cause. This means that there were others out there who knew how the American stock markets were about to be affected, and this fact makes it more likely that at the very least Al Qaeda would have been informed of the potentiality of short sale profits. Of course it seems very unlikely that Elgindy would be the only person in the world that could garner accusations of connecting terrorism to naked short selling.

There are other connections between naked short selling and groups hostile to the American economy. As was explained in part one of this series of articles, many threats have been levied in the past against men such as Rod Young and Wes Christian, who have been involved in law suits against accused naked short sellers. One of those threats was levied against Bob O'Brien, by a man revealed by him a convicted money launderer. This threat, which was made in response to O'Brien's efforts to curb illegal naked short selling, came from Kevin Ingram- according to O'Brien.

Ingram's connection to the world of Islamic Fundamentalism was as follows: he had been caught money laundering through an investigation into the illegal sale of night vision goggles, Beretta machine pistols, M-16 machine guns with silencers, rocket-propelled grenade launchers, mortars, surface-to-air missiles (SAMs), TOW anti-tank missiles, and Stinger missiles to an unnamed state, according to the New York Attorney's office. Ingram was an investment councilor at the World Trade Center, who pled guilty in part of a bargaining agreement to have Ingram roll over on more dangerous, high priority targets. The Times of India reported in June that one of the three high priority targets working with Ingram had asked undercover agents about "the chances of obtaining components for nuclear weapons." Authorities would not release the name of the country that would receive these arms, according to independent reporter Tom Flocco.

A third link is found through hedge funds that, as ex-SEC enforcer Brent Baker stated in the first part of this series, have included illegal naked short selling as part of their business model. Some of these hedge funds have been linked to a company called Red Sea Management, and the man who runs this overseas institution, Jonathan Curshen. Curshen worked hand in hand with Elgindy before Amr went to prison, and has also been connected to other figures in the illegal naked short selling world such as Thomas Baidan, recently featured in the Time magazine article on naked short selling, who appears on Curshen's exclusive party list. This was all revealed by the same FBI source that revealed Elgindy's connections to Terrorism.

According to yet another source very close to Curshen's business transactions, Curshen no longer travels to the United States, though he learned his trade in Vancouver (Canada) as well as inside the United States. Today he enjoys diplomatic immunity which was granted to him by the nation of Costa Rica, and runs his business out of that country. His offices are in fact located on the top two floors of the Israeli consulate in Costa Rica, and Curshen's part-time body guard is the head of security for the Israeli consulate, according to the FBI source who saw the offices first hand, as well as discussing the issue with Curshen himself.

That Curshen has associated himself with a key financier of both Al Qaeda and HAMAS, yet finds his offices on the top two floors of the embassy of a nation to which the two terrorist groups are a sworn enemy seems odd. Curshen is a testament to how far terrorist groups can infiltrate a nation through the practice of illegal naked short selling. According to the second source close to the Curshen situation, Curshen participated in "the movement of two trillion dollars by the network to offshore destinations" in the year 2003. That source has also verified Curshen's diplomatic status and the location of his offices.

There have been other participants in this potential economic warfare against the United States. The second source on Curshen accuses King Faisal of Saudi Arabia of putting over two hundred companies out of business through one of Faisal's investment groups and their use of illegal naked short selling. According to a source close to Congressional investigations into the financing of Terrorists, Terrorist Mohammad Atta in fact confirmed that the Saudis were interested in manipulating American investments when he

announced to his girlfriend that the Saudis had begun an aggressive scheme to ensure Saudi Arabia would one day own all of the United States through its corporate entities. Part of that scheme seems to be shutting down the small up-and-coming companies that give the American economy life.

According to that Congressional source, China was discovered to be using hedge funds to manipulate American stocks in an economic war effort as early as 1998, running its business out of Hong Kong under names such as V-Nee Yeh. It is interesting that this could slip by US regulators, largely because, according to that source, in 1999 future SEC Chairman Christopher Cox headed a Congressional Commission whose findings stated that Chinese military spending was in fact twice what the CIA had previously suspected. Due to his participation both in this in-depth evaluation of Chinese military financing the year after Chinese economic warfare was exposed, and then his appointment as SEC Chairman in 2005, Cox's SEC definitely has the knowledge and means to at least explore the issue.

Recently, the 9/11 Commission, which was in charge of investigating 9/11 successes and failures, was disbanded, but not before they gave a final report. In report card style, the commission detailed how the government had done in response to implementing their findings into the administration's evolving Terrorist policies. It was interesting to see that despite failing grades in much of what the government had done, the government received an A-minus in the realm of Terrorist financing. If this is what they call an A-minus, I don't even want to know what they call an F.

Millions of jobs lost, and according to C. Austin Burrell and Dr. James Angel, potentially trillions of dollars lost through these practices would seem to be a warning sign. The Administration once said they did not want a smoking gun to come in the form of a mushroom cloud, then launched a four hundred billion dollar war. It seems more apparent now that instead the gun is coming in the form of a market crash. How much is the government willing to spend on that?

(James Cummins is an independent journalist and co-author of the forthcoming book 'The Midas Touch: Counterfeit Stocks, Naked Short Selling and Selling America Short'. He has also worked with multiple corporate executives in different sectors in a ghostwriting capacity, none of which have ever been employed in the companies named within this article. James and his co-author can be contacted at -----)