

# VODIA GROUP LLC

## Vodia Group Comments on Recent Short Sale Rulings

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Vodia Group response to the US Securities and Exchange Commission (SEC) announcement of emergency orders banning the short selling of 799 financial stocks and eliminating naked short selling for the entire market.

While we strongly support the SEC's position against naked short selling, we are concerned with their decision to ban legitimate short selling. We have seen no evidence or data to support the notion that the banning of short sales in financial stocks will provide anything other than a short-term price stimulus. There is however reason to think that move will cause substantial damage to the US equity and options markets in the medium and long term.

The distinction between naked short selling and legitimate short sales cannot be overstated. The SEC is long overdue in eliminating naked short selling. For many companies naked short selling has had a detrimental impact on their ability to do business for years. The data indicating the damage from naked short selling has been clear from every release of the SEC's own Fail to Deliver datasets and stock exchange Reg SHO Threshold Lists. We welcomed the SEC's decision on September 17<sup>th</sup> to prevent naked short selling.

Legitimate short selling however is vital in the provision of accurate market sentiment and enhances market liquidity. While the SEC has recognized the legitimate nature of the practice, it implemented the ban to prevent perceived abuses of short sales, including the use of market rumor and naked shorting, and to prevent further short-term declines in the stock prices of financial firms. We do not believe that there have been any rumors unbeknownst to the general public that have been circulating about the stocks in question. The action of September 17<sup>th</sup> banned short selling. And lastly, we do not believe it is the role of the regulator to make decisions about the direction of stock prices. When the ban is lifted investor desire will show itself once again.

The effect of the temporary short sale ban on 799 financial stocks will be to reduce liquidity, undermine the stability and legitimacy of the US financial system, limit brokerage and hedge fund activity, and prevent the accurate expression of market sentiment. In a confused and volatile market, leadership from the government in creating stability can have a positive effect, but a seemingly arbitrary regulatory regime and handicapping of market sentiment are not the paths to well functioning markets.