NEW YORK POST
ONLINE EDITION

NAKED SHORTS SCARE

By RODDY BOYD

September 15, 2005 -- Traders in Nasdaq stocks are racing to beat a rumored regulatory deadline to close out their positions — or take huge losses as clearing firms do it for them.

Stock traders told The Post that Nasdaq stocks including Baidu.com, the Chinese Internet portal, and Foxhollow Technology Corp. experienced sharp spikes in stock price and volume recently as short-sellers scrambled to cover their positions.

On Sept. 6, Baidu closed at $77.80; Tuesday, it closed at $113.59. On Sept. 6, Foxhollow was $43.91; on the Sept. 9, it closed at $47.96.

Naked short sales are trades executed without borrowing stock beforehand. Naked short sellers can overwhelm an orderly trading market, since unlike traditional short sellers, there is technically no limit to how much stock can be sold short illegally.

Naked shorting was always a violation of established trading practice, and in January the National Association of Securities Dealers instituted a rule — Regulation SHO — to eliminate the practice.

A day trader active in numerous Nasdaq stocks, including Baidu and Foxhollow, said a rumor of mandatory buy-ins had been circulating on Internet bulletin boards for days.

The Post reported recently that the NASD and numerous state securities regulators, led by Ralph Lambiase of Connecticut's Division of Securities and Business Investments, have vowed to increase scrutiny of naked short sales.

A buy-in is the worst possible development for a short-seller, since he has to accept any price given.

"Ninety-five percent of those rumors are fiction put out by people long on the stock, but price and volume action don't lie," said this trader. "Any stock for sale was gobbled up, regardless of price."

The NASD circulates a daily list of stocks — termed the Thresholdd List — from the New York Stock Exchange and Nasdaq with a certain percentage of their trading volume failing to match up.

Tom Ronk, the chief executive of Buyins.net, which offers software to take advantage of so-called short squeezes, said stocks with large naked short positions for two weeks often start to increase in price.

He said after 15 days on the Regulation SHO list, firms must buy in their clients or face fines or the suspension of their licenses.

As an example, Ronk pointed to Catuity Inc., which had been added to the NASD's Naked Short List on May 2 at $4.53 and jumped to $22.58 by May 9, closing yesterday at $15.40. -end