



## **Naked Shorting: Majority of Investors Say Penalties Should Be as or More Severe Than for Fraud and Counterfeiting**

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### **Issue Could Have an Impact at the Polls According to New Study by Harris Interactive**

ROCHESTER, N.Y., Feb. 13 /PRNewswire/ -- Three out of four U.S. investors(1) (76%) say someone who naked shorts a stock should face civil (8%) or criminal penalties (9%) or both (59%). By the same margin (76%), investors believe such penalties should be about as (65%) or more (11%) severe than those for fraud and counterfeiting, according to a recent survey commissioned by Working Americans for an Open Economy, conducted online by Harris Interactive® among 1,243 investors nationwide.

Investors' support for cracking down on naked shorting could play a role in upcoming congressional elections with 38% of investors saying they would be more inclined to vote for a congressional candidate who addresses the issue of naked shorting. Among investors aged 55 or older, fully one-half (50%) say they would be more inclined to vote for such a candidate.

"This study leaves little doubt as to how seriously investors view the illegal practice of naked shorting," said Mark Wirthlin, senior vice president of the Harris-Wirthlin Brand and Strategy Consulting Practice at Harris Interactive. "If this issue moves front and center, it clearly has the potential to influence both legislation and congressional elections."

The study was designed to understand investor attitudes toward the practice of naked shorting. "Naked shorting has become the game on Wall Street in the past 10 years and its pervasiveness creates serious risks to our system," said Steve Wark, spokesperson for Working Americans for an Open Economy. "These results show that the public is ready for the government to take real and meaningful action against hedge funds, brokerages and individuals breaking the law."

When it comes to specific actions that could be taken against those found guilty of naked shorting, vast majorities of investors are behind every alternative tested:

- \* Requiring the federal government to publish the identity of brokerages and individuals found guilty of naked shorting (79%)
- \* Allowing individuals, investors, pension funds, and small companies financially damaged by naked shorting to sue to recover their financial losses (75%)
- \* Revoking the securities licenses of those found guilty of committing naked shorting (75%)

Findings for the study were compiled from an online study of 2,486 U.S. adults conducted December 6-8, 2005. These questions were then asked of the 1,243 who currently own stocks, mutual funds or 401(k) funds. The sampling error for the investor results is +/- 4 percentage points at the 95% confidence level.

QUESTION WORDING AND TOPLINE FINDINGS:

BASE: ALL RESPONDENTS

QA Thinking about something new ... Which of the following do you own?

- 48% OWN STOCKS, FUNDS OR MUTUAL FUNDS
- 29% Stocks
- 27% Mutual funds
- 29% 401(k)
- 43% None of these
- 9% Decline to answer

BASE: OWN STOCKS, MUTUAL FUNDS OR 401(K)

QB Please read the information below, then answer the questions that follow.

In stock trading, there is a stock purchase called "shorting" or "short selling" and one called "naked shorting."

When someone shorts a stock, he/she borrows shares of that stock from his/her broker, typically for a fee, and sells those borrowed shares on the open market. When the stock goes down, he/she buys shares in the market and returns them to his/her broker who lent them to him/her. Short selling is legal and the borrower pockets the money he/she makes from borrowing low and selling high.

Let's say you noticed the price of moose antlers was soaring -- which in turn would hurt the earnings of Deer Antlers Incorporated. You decide to go short on Deer Antlers Incorporated, so you borrow 100 shares of Deer Antlers Incorporated from your broker and sell them at \$30 per share. Two months later, Deer Antlers Incorporated falls to \$25 a share. You buy the shares back and pocket the \$5 difference per share for a \$500 profit. If you do this you are a "short-seller" or "selling-short" Deer Antlers Incorporated.

In naked shorting a short-seller makes a stock trade without ever owning or borrowing the shares he/she sells. Some professional investors and hedge funds take advantage of loopholes in the rules to sell shares without making any attempt to borrow the stock. When a stock is naked shorted, there is no limit on the downward pressure a short-seller can apply to that stock and some companies can be put out of business by this practice. Naked short sellers sell and profit from something they don't own or haven't borrowed. Naked shorting is illegal.

In your opinion, should someone who naked shorts a stock face civil and criminal penalties?

- 8% Yes, face civil penalties
- 9% Yes, face criminal penalties
- 59% Yes, face both civil and criminal penalties
- 5% No, face no penalties
- 18% Not sure

BASE: OWN STOCKS, MUTUAL FUNDS OR 401(K)

QC In your opinion, should penalties for someone guilty of naked short selling be more severe, less severe or about the same as penalties from crimes such as fraud and counterfeiting money?

- 11% More severe
- 10% Less severe
- 65% About the same
- 14% Not sure

BASE: OWN STOCKS, MUTUAL FUNDS OR 401(K)

QD Would you be more inclined / less inclined to vote for a congressional candidate who will address the issue of naked shorting?

- 38% More inclined to vote

4% Less inclined to vote  
36% Makes no difference  
21% Not sure

BASE: OWN STOCKS, MUTUAL FUNDS OR 401(K)

QE Do you believe that individuals, investors, pension funds, and small companies financially damaged by naked shorting should be able to sue the guilty parties to recover their financial losses?

75% Should be able to sue  
5% Should not be able to sue  
21% Not sure

BASE: OWN STOCKS, MUTUAL FUNDS OR 401(K)

QF Do you believe that the federal government should be required to publicly publish the identity of brokerages and individuals found guilty of naked shorting?

79% Should be required to publicly publish  
4% Should not be required to publicly publish  
17% Not sure

BASE: OWN STOCKS, MUTUAL FUNDS OR 401(K)

QG In your opinion, should individuals and firms licensed by U.S. federal and state governments to buy and sell securities lose their licenses when found guilty of committing naked shorting?

75% Should lose their licenses  
6% Should not lose their licenses  
19% Not sure

Note: For questions QD and QE, percentages may not add up to 100% due to rounding.

#### Methodology

Harris Interactive® conducted the online survey on behalf of Working Americans for an Open Economy between December 6-8, 2005 among 2,486 U.S. adults aged 18 and over, of whom 1,243 currently own stocks, mutual funds or 401(k) funds. Figures for age, sex, race/ethnicity, income, education and region were weighted where necessary to bring them into line with their actual proportions in the population. Propensity score weighting was also used to adjust for respondents' propensity to be online.

In theory, with probability samples of this size, one could say with 95 percent certainty that the overall results have a sampling error of plus or minus 3 percentage points of what they would be if the entire U.S. adult population had been polled with complete accuracy. Sampling error for the sub-samples of investors (1,243) and investors aged 55 and over (497) is higher and varies. This online sample is not a probability sample.

#### About Working Americans for an Open Economy

Working Americans for an Open Economy is a non profit public interest group that advocates for greater transparency and financial accountability in America's investment, securities, and financial institutions.

#### About Harris Interactive®

Harris Interactive Inc. ([www.harrisinteractive.com](http://www.harrisinteractive.com)), based in Rochester, New York, is the 13th largest and the fastest-growing market research firm in the world, most widely known for The Harris Poll® and for its pioneering leadership in the online market research industry. Long recognized by its clients for

delivering insights that enable confident business decisions, the Company blends the science of innovative research with the art of strategic consulting to deliver knowledge that leads to measurable and enduring value. Harris Interactive serves clients worldwide through its United States, Europe ([www.harrisinteractive.com/europe](http://www.harrisinteractive.com/europe)) and Asia offices, its wholly-owned subsidiary Novatris in Paris, France ([www.novatris.com](http://www.novatris.com)), and through an independent global network of affiliate market research companies. EOE M/F/D/V

1. "U.S. investors" refers to U.S. adults aged 18 and over who currently own stocks, mutual funds or 401(k) funds.

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Source: Harris Interactive