

12/29/05

Dear Honorable Senator Feinstein

Thank you for your previous responses to my concerns regarding the Failure To Deliver crisis brewing on Wall Street.

Your responses have been diplomatic but unsuccessful in reassuring me that the SEC is taking steps to rectify the problem. There is overwhelming evidence that corruption on Wall Street continues to worsen. The SEC's year-old Reg SHO is a failure and a national disgrace. Reg SHO has not resulted in a single "buy-in", not a single criminal prosecution nor does it curb the criminal behavior whatsoever. Many of the companies listed on Reg SHO have been there for the entire year with no improvement. TRILLIONS of dollars of shareholder value have been lost to a relatively small group of white collar crooks.

Here is what some other experts say about the problem:

1.) <http://www.sec.gov/rules/petitions/4-500/jdfinnerty050505.pdf>

John D. Finnerty, Professor of Finance, Fordham University wrote "Short Selling, Death Spiral Convertibles, and the Profitability of Stock Manipulation" in March 2005. Finnerty created mathematical models and concluded that "naked short selling can routinely occur within the securities clearing system of the United States...potentially severe market impact". He says that the problem appears to be pervasive, that naked short selling is particularly effective and damaging and that the current clearing and settling system is conducive to manipulative short selling.

2.) <http://faculty.fuqua.duke.edu/areas/finance/papers/EGMR%205-5-03.pdf>

Four economists, Evans, Geczy, Musto and Reed, from Wharton and North Carolina University published on May 5, 2005 "Failure is an Option: Impediments to Short Selling and Option Prices" studying the extent, effects and profitability of delivery failures in the marketplace. Their study shows that "buy-ins" occur less than 0.12% of the time where they followed 69,036 delivery failures. Therefore, the system did not work 99.88% of the time to protect investors.

3.) <http://www.unm.edu/~boni/RPAWP/FailsPaperJun25.pdf>

Leslie Boni, University of New Mexico, wrote June 25, 2005: "Strategic Failures in U.S. Equity Markets". She concludes that market makers deliberately and strategically fail to deliver shares and that the fails are pervasive in the settlement system. All of Boni's research and evidence contradicts what the SEC and DTCC are telling us.

In the majority of cases, targeted companies simply can't recover. Products and technologies are lost, shareholder value is destroyed, jobs disappear and the crooks get to keep their ill-gotten profits, usually without having to pay a dime of

tax. Our capital markets are in serious decline and investor confidence is eroding due to this illegal activity. The massive counterfeiting precipitates a “death spiral” where the shareholders lose confidence in the company, customers run for the exits and the company is no longer able to obtain financing to support growth.

The SEC is clearly not telling the truth. The critical counterfeiting data is cloaked in secrecy. Why is that? You are being fooled if you believe that the SEC is taking any meaningful action to curb this criminal behavior. You need to wake up and realize exactly what is happening, Senator Feinstein. For starters, you should demand that Senator Shelby re-open his hearings on the naked short selling and demand that existing SEC laws be enforced.

Lastly, here is an excellent article that accurately details the saga of one Reg SHO-listed company, NovaStar Financial (NYSE - NFI). Check out this article: <http://www.cross-currents.net/commentary.htm> (I happen to own nearly 12,000 shares of NFI.) What is important to realize, in NovaStar's case, is that one side or the other will suffer enormous, catastrophic losses. The SEC and other regulators are to blame for having allowed enormous amounts of counterfeit shares to be generated. NovaStar may survive, but thousands of other companies have been bankrupted by this illegal counterfeiting - at tremendous economic cost for our country.

The implications and consequences of allowing our markets to be “gamed” by these greedy manipulators are enormous.

Ignore this growing crisis and you may as well burn our Constitution.

The Wall Street crooks will have won.

Sincerely, Robert W. Hallam