

Dear Mr. Pombo

This letter isn't about NovaStar Financial. It's about the whole damned, corrupt stock market. NovaStar just happens to be one of many hundreds of companies that have been devastated by a handful of GREEDY BASTARDS. Are you going to allow a handful of GREEDY BASTARDS to ruin this country? That's exactly what happened in Afghanistan when the Taliban took over and in Iraq when Saddam and his henchmen used unspeakable brutality to seize power.

Please take notice. I believe that this situation has the potential to take down the entire Bush Administration, the Republican Party or WORSE! The Bush administration is failing me. YOU are failing me, Mr. Pombo. The problem demands IMMEDIATE ATTENTION. A MAJOR HOUSECLEANING IS IN ORDER!

Investor complaints, like mine, can't be ignored forever. A DAY OF RECKONING IS FAST APPROACHING. I am not satisfied with mere lip service.

The OBVIOUS CORRUPTION in the SEC and DTC, acting in complicity with hedge funds, was well-exposed and completely laid out today on the conference call for OverStock.com (OSTK:nasdaq) this morning (starting at about 1:14:50 of the call).

I want to know: WHAT IS BEING DONE TO ENFORCE EXISTING LAWS DESIGNED TO PROTECT THE PRIVATE INVESTOR?

My colleague, Robert O'Brien (the person on the conference call) also wrote an editorial on his experience. O'Brien expresses himself and explains the enormous scope of the problem more eloquently and clearly than I can.

Please read this editorial and then explain to me what is being done to enforce the law.

O'Brien begins....

I was fortunate enough to get through on the Overstock.com conference call this morning. It was a fun call. Dr. Byrne was a real gentleman, and I had an opportunity to take him through the mechanics of the manipulation that his company's stock is enjoying.

I started by making the observation that legitimate shorting was fine, that I had no problem with that as a bet against a company's performance or their valuation.

I then went on to describe something that bears no relation to legitimate shorting – namely a systematic mechanism for the serial killing of small cap companies, that involves criminal manipulation, collusion, libel, fraud, related party trading, naked shorting, racketeering, and every violation of 10(b)5 that you could think of.

Then I laid out the schematic: Stage one is take a short position in a company that either has difficult to understand accounting, or a non-traditional business plan, or is in a sector

that has a stigma – like a dot com. At this stage volume and price will actually surge, as the shorts want a good price for their position, and they can sucker in retail longs to buy as they sell into the buying – everyone likes buying a stock that is going up. They then, once fully short, unleash the dogs of war – a barrage of media attacks that question the company’s integrity, their accounting, their business plan, their management’s ethics, ability to compete, you name it. They’ll have their crony analysts generate critical pieces slamming the company’s board oversight, corporate governance, earnings quality – it’s all for effect, doesn’t matter if any of it holds water. Concurrent with this they will begin related party trading, and the volume will triple or quadruple, and the stock will become volatile in the extreme – the idea is to make it a very scary stock to own, way too “risky” for Joe average to want a piece of.

Stage one will often last 6 months to a year, or more – until the manipulations cease to scare folks. Then they’ll go to stage two.

Stage two involves getting the company listed on foreign exchanges – OSTK is listed on 5 German exchanges – which is highly improbable, and which the company never requested. The reason for the listings is to create a pretense for naked shorting and then failing to deliver stock. When the offshore fund naked shorts and then is requested to deliver, having failed to make an affirmative determination and having no interest in borrowing the stock (the borrow is usually non-existent by this point), they’ll simply report to the DTC that they are waiting for XYZ broker in Bremen or Belgrade to get shares from Berlin or Frankfurt or Stuttgart or Munich. The DTC will likely nod and wink, and then will probably lend them shares from the “stock borrow program” until the shares “are” delivered – for a fee, of course. Per O’Quinn’s lawsuit against them the DTC makes money from this, as does the SEC, who gets a piece of the action, so there is no incentive to really look at it too hard.

Naked shorting is critical at this juncture, as they’ll require a ton of shares to tunnel the stock when the Grand Finale comes.

The Grand Finale is a major negative article in a paper like the WSJ or Barron’s, followed immediately by a barrage of class action suits (likely based on the article) and a bogus regulatory probe (based on the suits and the article - the old "where there's smoke" gambit...)

Concurrent with these will be massive naked shorting to give the stock a 50% or greater haircut, and scare everyone out of the equity. Once their target is met, the shorts will cover and move on to the next scheme.

The entire affair is a lie, a deliberate deception, and is in my opinion the most obvious sort of manipulation.

I then made the observation that Rocker Partners happened to be short 25% of the US companies on the NYSE Reg SHO Threshold list, and 3 on the NASDAQ. I got that

wrong. OSTK appeared overnight on the SHO list in conjunction with their AH takedown. So it's 4 on the SHO NASDAQ list. That we know of and can document.

I then predicted that OSTK was likely in phase two, and to expect massive amounts of naked shorting, coupled with a media slam and some class action suits and a regulatory probe.

Needless to say, I was surprised when I got off the call that OSTK was now on the Reg SHO list. Not that surprised. But just surprised at the brazen way that these guys operate, seemingly with impunity.

It was a good call.

I made the point that Rocker could not be proven to be the bad guy, per se, as he is a "reputable" short seller, and that it was probably all a big coincidence that he is short so many companies who have been systematically violated, as proven by their presence on the SHO list. Like a 1 in 1,000,000,000,000,000 chance. But still, a chance that it is all coincidental. And you have to give a guy the benefit of the doubt...right?

And then we all got to watch OSTK get sold off as a seemingly unlimited number of shares hit it from the ECN's, with the Pac Ex featuring prominently. And we got to see the SEC do nothing, even as the list stands in mute testament to their complicity.

What's it going to take to get this stopped? Or is it just that the U.S. markets can no longer be considered suitable for investment? It's a fair question as the President attempts to frame the argument that it would be a good idea to allow our SS to be put into the same markets that are an apparent breeding ground of corruption and greed.

I don't think anyone is taken aback by my description and prediction of the mechanism being used on OSTK. Perhaps what is noteworthy is that it is the first time that anyone has gone on record to lay it out in terms that everyone can understand, and which are being proven as we speak. Anyone that is of the opinion that it can't happen here should reflect on the fact that it is actually happening here, real time, and nobody's lifting a finger to stop it.

What can you do? Write your elected officials, and present them with the evidence, and demand that they, your employees, do their frigging job and enforce the laws that were created to protect you. Otherwise just resolve yourself to inhabiting a lawless society where might is right and power equates to privilege without consequence. And where about 200 guys in New York that are too lazy or stupid to actually produce anything or run companies glom on and drain your lifeblood, like a malevolent tapeworm in the system.

End.

For more information go to  
<http://www.nfi-info.net/news.htm>

Respectfully and sincerely, Robert W. Hallam