November 21, 2006

Mr. Chairman, Commissioners,

As the general public patiently awaits your decision regarding how the Commission will address short selling market abuses and to what level special exemptions will continue to be provided to members of the market, I would like to illustrate by example what the regulators have avoided disseminating to the public as evidence of such market abuses.

For years the general public have openly expressed their concerns over the lack of regulation in the "bona-fide market making" process. Naked shorting, while illegal in most cases remains perfectly legal in others. Legal naked shorting comes by way of the bona-fide market making exemption in which members of Wall Street can sell shares they do not carry in inventory in order to create liquidity.

When a buyer and seller cannot be properly matched in a trade, a market maker can step in and sell shares to the buyer without the inventory expecting to cover such a trade at a future data and future profit. The expectation is that by maintaining liquidity the markets can remain orderly and less volatile. Expectation is not always reality.

Below I will illustrate the realities of what happens frequently in the market place where market making and maintaining market order fails.

Jag Media (JAGH) is a small public company that trades on the OTCBB. Jag Media is not your Tier I public company but more the struggling enterprise. There is market-making activity taking place in the stock that requires by law that market makers represent both sides of a market [bid and offer]. Regulations do not identify the proximity of the bids and offers just that they be present somewhere in the box.

This lack of proximity can allow for multiple members to bunch on the offers and spread the bids over a wider range creating a perception of sell side interests. Many times these spreads can represent neither buyer or seller but market maker interests.

The regulators have expected that in providing certain exemptions from settlement and locate requirements these members will provide a level of stability in the marketplace that will effectively flatten out any temporary volatility that may take place over the course of time.

On November 21, 2006 the market makers in Jag Media did not perform the duties as required by law but instead operated in a manner that could be considered manipulative. The concern voiced by the investing population globally, and rightly so, is that the example I am about to illustrate is not simply an isolated event that took place on a day in November 2006 but instead a common occurrence seen throughout these markets and seen without regulatory oversight or enforcement. Investors can see the abuses that regulators simply overlook or ignore because of company pedigree.

When you look at the example below consider SEC rules as they pertain to market making exemptions (options or equity) and insure that any exemptions being provided come with a clear set of tools to monitor the activities and reduce member abuses.

The example:

Jag Media opened up on November 21, 2006 with a market represented by a pre-market $0.32 Bid X $0.35 Offer after closing the previous day at $0.32. Jag Media, which generally trades approximately 70K – 80K shares daily, had traded nearly 1 Million shares the previous day [November 20, 2006] raising the $0.25 stock to $0.35 before closing at $0.32.

During the heavy volume trading that occurred on November 20, there were times where more than 200,000 shares would trade at a single offer point as market makers maintained some semblance of an orderly market most likely using their exemptions provided under law.

But November 21 brought a different tune to the market despite the exuberance of the previous day. November 21 was to be a down day regardless of where investor sentiment was and the first sell order of the day at $0.29 stuck home that point. A partial chart of the days trading will illustrate:

0.28	5000	OBB	12:46:48
0.28	2500	OBB	12:46:24
0.28	2500	OBB	12:46:24
0.28	5000	OBB	12:45:23
0.28	5000	OBB	12:45:22
0.29	3500	OBB	12:38:31
0.29	3500	OBB	12:38:31
0.29	10000	OBB	12:36:23
0.29	10000	OBB	12:36:23
0.28	5500	OBB	11:45:37
0.28	5500	OBB	11:45:37
0.28	10000	OBB	11:44:36
0.28	10000	OBB	11:44:35
0.28	17600	OBB	11:42:08
0.28	17600	OBB	11:42:08
0.28	11000	OBB	11:37:14
0.28	11000	OBB	11:37:14
0.28	2500	OBB	11:32:55
0.30	3000	OBB	11:08:25
0.28	1000	OBB	11:08:10
0.12	**2500**	**OBB**	**11:00:27**
0.30	2500	OBB	11:00:16
0.29	2500	OBB	11:00:13
0.31	3000	OBB	10:57:15
0.32	10000	OBB	10:36:15
0.35	1500	OBB	10:19:47
0.35	1500	OBB	10:19:47
0.30	5000	OBB	09:55:55
0.30	5000	OBB	09:55:55
0.30	5000	OBB	09:54:20

The significant highlight in this chart is the trade executed at 11:00:27. This was the trade that set the tone for the remainder of the day and is typical of how many stocks trade in these loose and fancy-free markets. (For reference, pink highlighting represents a down tick and green is an up tick)

Prior to the $0.12 trade, the stock had traded 34,500 shares with an additional 12,500 shares in trade volume cancelled (36%) after the trade volume was previously posted to the public. Only minutes prior to the $0.12 trade [10:57:15] the market was represented by a $0.31 bid and a $0.32 offer but 10:57 began the order flow of a collapse.

The trading sequence that took out 64% market cap (Bear Raid):

Trade	3000	shares	$0.30	bid	10:57:15	
Trade	2500	shares	$0.29	bid	11:00:13	
Trade	2500	shares	$0.30	offer	11:00:16	

Eight thousand shares moved a $0.31 X $0.32 Market to a $0.29 X $0.30 market only to then watch the bid change one last time --------- $0.12

Trade 2500 shares $0.12 bid 11:00:27 (Market Loss 63% on $300.00)

The market in Jag Media collapsed 63% as there was no market maker willing to maintain a bid in a bona-fide market to protect the volatility while there were four stacked near collapsing offer. The markets makers used their exemptions to sell naked the previous day to limit upside volatility but failed to take on the buy side responsibilities in order to maintain an orderly market on light (non-existent) selling.

The impact of such irresponsibility became immediately evident. A market that was positioned around the previous day close [$0.31 x $0.32] was quickly re-established but now it was a significantly downgraded $0.21 bid X $0.28 offer after a single trade of $300.00 moved the stock down 63%. So much for orderly.

With 37,000 shares in trade volume now recorded on the books trading commenced with over 300,000 shares trading throughout the remainder of the day. The trading ranged between $0.28 and $0.29 over those 300,000 shares. Jag Media closed the day with 331,000 shares of reported volume at a closing price of $0.29 (**-10%**). While a market collapsed from $0.31 to $0.12 on 8000 shares, this ceiling on the stock was not moving away on any amount of trading volume. The collapse itself defined the future ceiling of the market.

Question: How much of this buying was available in the market but was unrepresented by a member when the trade was executed at $0.12 because the laws do not require a trade to be represented? This is the proprietary type data the laws continue to protect through limited transparency requirements. SHO should open up this transparency by requiring that all trade orders be represented by a market maker in order to prevent such abusive collapses.

As the SEC considers the exemptions clause afforded members of the industry the SEC must also evaluate how such exemptions are being handled in real time. On November 20, it is most likely that some market makers were caught by the surge in volume and held an overall financial liability due to naked short trading executed under the bona fide exemption. Responding to such liabilities by creating a disorderly and disruptive market to regain profitability on those bona fide positions cannot be tolerated. Bona fide shorts must come at the risks natural investors take in a market.

In prior analysis conducted of Regulation SHO companies, a similar pattern of market raiding was also demonstrated. It appeared that trade volume, sell side volume, was used to drive lower the markets of SHO threshold companies as a means of closing out open fails that represented member liabilities. Such market reactions are not orderly but instead manipulative. These are the very same types of activities the regulators should be monitoring as part of the analysis into SHO and how future exemptions should exist.

Some of the more obvious questions are:

1. For those issuers who were listed as a threshold security due to excessive fails; were the market makers who "owned" such fails for house or client accounts playing a dominant role in the market making activities and were they taking an excessively lop sided sell side market making position to positively impact the financial liability of these fails?
2. What mechanisms does the SEC intend to put in place to protect the downside volatility like that which happened in the example used earlier? If a naked short exemption is being provided to market members to allow for the stabilization of up side trading, what requirements will the SEC put in place to prevent these down side raids and how will the SEC enforce such expectations?
3. What oversight is being used by the regulators to insure that market makers are not simply playing the sell side of a bona-fide market making position and that they stabilize a market from both sides of a trade?

The incentive for a market maker to sell naked short vs. taking on a long position is clear.

Shareholder fear is a stronger sentiment that induces trading than would upside volatility. Market makers can sell naked absorbing all buyers in the market and then cover as the buy volume dries up and sellers come into a market thinking a peak had been reached. If the SEC is to provide such exemptions to these firms, controls must be adequate to insure the exemption itself is not the vehicle for the abuse.

In closing, the stock I speak of today is one in which I hold a position. It was not that long ago (August 30, 2006) that somebody hacked into my brokerage account and sold off 80,000 shares of this exact same security. No money was taken from my account but damage was done nonetheless. The stock was trading at $0.22 at the time of the breach but over the course of 72 seconds the $0.22 stock had been driven down to $0.053 in a raid like attack. The trading was conducted maliciously and was calculated. The trade volume represented more than 80% of the total volume for that day. It was a criminal act that took place in these capital markets but not one where any individual was or will be held accountable.

There was no market making protections then to protect against this, as there was none today. Market makers will cap off all buy side interests but rarely play the sell side cop to maintain order in a collapsing market. The tech crash of the late 1990's demonstrating such. Far too many stocks are allowed to collapse on a single order as those required to maintain order part the market like the parting of the red sea. After the collapse is over these same members will come back together but the water level is much lower. Their past open liabilities (grandfathered fails) are now looking far more profitable due to the momentary raid.

As I have stated in the past, the SEC analysis is flawed because the SEC blindly into the markets. The SEC has far too many preconceived notions and far too many alliances with the members to objectively look at what really happens at the trading levels. The data tabulated above is the real trading level and that data speaks for itself. The data is not representative of an isolated case but representative of the standards the regulators have accepted in order to maintain enrichment of the financial institutions.

Please take your responsibilities serious enough to address issues such as the one above. Bear Raids do in fact exist despite what economists representing the industry have to say. Bear raids are just operating at a different period than what most people are accustomed to seeing. The frequency of a bear raid can be a matter of seconds, minutes, or days but that single event can alter an entire market for days and weeks to come. Today it was proven that it can take 8000 shares to drop a stock 64% in a disorderly market but 300,000 shares cannot bring a market back.

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