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Short and Distort

By [JAMES CHEN](#) | Updated Aug 15, 2019

What Is Short and Distort?

Short and distort refers to an unethical and illegal practice that involves investors shorting a stock and then spreading rumors in an attempt to drive down its price. Such a practice, most often employed by stock [manipulators](#) who trade daily via the internet, involves the spread of unsubstantiated rumors and other kinds of unverified negative news designed to help them realized a profit on their short position.



Short and distort can be contrasted with a pump and dump scheme, whereby the perpetrator takes a long position and then spreads misinformation to drive the stock price up.

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Important: The act of shorting and distorting constitutes securities fraud and can result in significant fines and penalties.

How Short and Distort Works

Short and distort efforts are often practiced as a part of [naked short selling](#), which involves the short-selling of a security without having first borrowed it or making sure it can be borrowed. In such cases the investor uses the proceeds from the short sale to deliver the shorted shares.

The profit is realized in two ways: in the spread between the price at which the shares were borrowed and the lower price at which they were delivered, and also in the practice of buying more shares than were borrowed at the lower price, which are then put up for sale, further lowering the price of a company's stock.

KEY TAKEAWAYS

- Short and distort is an illegal trading scheme involving selling short the shares of a company and then spreading negative rumors in order to influence the stock price downward.
- Short and distort is made more common through the use of online forums and social media channels to spread disinformation quickly and anonymously.
- Short and distort is a serious crime, and perpetrators can be charged with securities fraud and subject to fines and jail time.

Short and Distort in Use

Short and distort efforts may be especially effective during bear markets or when the markets are unstable. Corporate scandals and investor uncertainty make it easier for fraudsters to spread doom and gloom by claiming that a firm is losing a very costly class action suit, is suffering from low earnings, or is about to receive bad news. Short and distort practices tend to



from unverified sources.

In [one example of short and distort](#) in 2008, Wall Street trader Paul S. Berliner was charged with securities fraud and market manipulation for having spread false rumors about the acquisition of Alliance Data Systems (ADS) by The Blackstone Group while shorting ADS. He utilized instant messaging to individual investors, traders at brokerage firms and hedge funds to spread his negative message about the deal. His false statements were also picked up by the media. Berliner settled the charges by paying a \$130,000 penalty, disgorging over \$26,000 in profits and being barred from associating with any broker or dealer by the Securities and Exchange Commission (SEC).

Short and Distort vs. Pump and Dump

The practice of shorting and distorting a stock is the mirror image of [pumping and dumping](#), which is artificially promoting and propping up a cheap stock in order to sell it at an inflated use of positive statements about a company that may micro-cap stocks, penny stocks and smaller

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A poop and scoop scheme spreads false information to force a stock's price lower, thereby offering an illegal opportunity to purchase at a discount. [more](#)

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Poop

Poop is a slang term used to describe inside information or people with insider, nonpublic information that can be used to their financial advantage. [more](#)

What Is Securities Fraud?

Securities fraud is a form of white-collar crime that disguises a fraudulent scheme in order to gain finances from investors. [more](#)

Stock Basher Definition

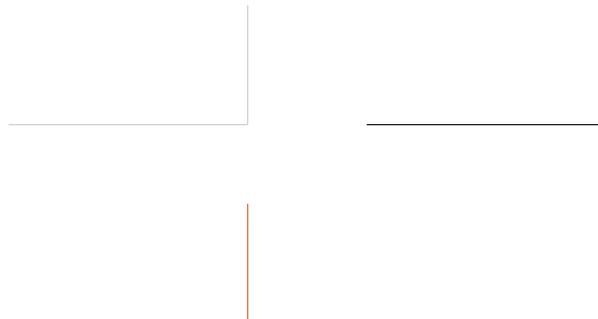
A Stock Basher is a person who spreads misinformation to drive down the price of a stock. [more](#)

What Does "Cats and Dogs" Mean?

The phrase "Cats and Dogs" refers to speculative stocks that are lightly regulated and traded over the counter (OTC). [more](#)

Understanding Rule 10b-5

In order to address securities fraud through manipulative practices, rule 10b-5 was created under the Securities Exchange Act of 1934. [more](#)



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