

**Formal Complaint to the
Securities and Exchange
Commission**

Division: Trading and Markets

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***Regarding Suspicious Events Underlying
the Bankruptcy of Washington Mutual***

Submitted October 7, 2008

By



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Note: Because I am under no contractual obligation with the SEC, I reserve the right to make this report, as well as final versions and any findings available to the public, any clients or other parties within my discretion. As a courtesy, I have delayed the release of this report for a period of no less than 3 business days to allow the SEC to make an initial assessment and response. Any changes to this policy will be considered.

This report by no means represents a finalized or comprehensive version. It was meant to provide sufficient insight in a timely manner in order to encourage the SEC to commence a formal investigation of the issues raised herein.

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Selected Publications

Books

The Wall Street Investment Bible, Volume I: Stock Selection & Investment Management. Expected Jan. 2009.

America's Financial Apocalypse: How to Profit from the Next Great Depression. Condensed Ed. Copyright © 2007.

Cashing in on the Real Estate Bubble. Copyright © 2006.

America's Financial Apocalypse: How to Profit from the Next Great Depression. Copyright © 2006.

The Startup Company Bible for Entrepreneurs: The Complete Guide to Building Successful Companies and Raising Venture Capital. Copyright © 2004.

Industry Specialty Articles

"Building a Biotechnology Platform in Dallas" 78 pp. Copyright © 2002. Not intended for publication.

"Beyond the Human Genome", 250pp lecture booklet for Southern Methodist University biotechnology course. February 10, 2002.

"Healthcare Horizons and Opportunities", TiE Dallas Annual Meeting, June 2003.

"A Primer for a Fund of Hedge Funds: Selection, Construction, and Management." 2003.

"Biotechnology Venture Capitalists Consider PIPE Deals as a Way to Increase ROI, But is this a Good Idea?" 2004.

"Technical Analysis and Market Timing—The Case for Reevaluating Standard Approaches for Traditional Asset Management." 2005.

Trading Equities, a monthly investment newsletter. 2004-2006.

Publications Available in the Public Domain

Market Oracle (2008)

- America's Financial Apocalypse Economists Need to Sit Down and Shut Up
- Bailout Plan No Solution to America's Ponzi Scheme Economy
- Financial Crisis Bailout or Not, Economic Depression is Upon Us
- America's Financial Apocalypse, What Can YOU Do as an Investor?
- America's Financial Apocalypse
- You Own Junk Bonds, Like it or Not
- The Death of Wall Street- Protect Yourself from the Banks
- Bank of America, Merrill Bailout Disguised as Buyout?
- The Death of Wall Street -Part 1
- America 's Financial Apocalypse Heralds Decade Long Depression
- Looking for a Stock Market Bottom? Look to Wall Street
- Greenspan Most Responsible for Credit Crisis Should Get Lost
- The Bailout Plain Truth and the Silent Economic Depression
- The Real US Dollar Crisis Is Ahead
- Bush's Dirty Little Medicare Secret
- The US Housing Market Mess the Experts Missed
- American Heroes Don't Last
- Barack Obama's Poor Decisions a Threat to His Success
- Using Macroeconomics to Obtain Long-term Market Forecasts
- Get Ready for the Corporate Earnings Meltdown
- How Washington is Fooling You: Manipulated Employment Data
- Investors Duped by CNBC Bubble Pumping Casino Propaganda
- America's Financial Collapse- It's the Economy Stupid!
- Washington Manipulation of GDP Data to Hide Recessions
- U.S. Treasuries: Worse than the US Dollar!
- Cooperman's Investment Strategy- The Stock Market's Down, Not Doomed
- Bailouts Mean US Tax Payers Pay for the Mistakes of Rich Bankers
- Investment Strategies to Exploit Current Macroeconomic Trends
- Stock Market Forecasting Made Simple
- General Motors and Ford Increasing Probability of Permanent Meltdown
- Investing in Oil to Beat Inflation
- Fannie & Freddie Bailout: Truth or Consequences
- Farewell IndyMac, What's Next? Say Hello to the 1970s Inflation Rate (Part2)
- Farewell IndyMac, Who's Next? (Part1)
- The Big Secret about Peak Oil and the US Military
- Investors Should Stay Clear of Traditional Asset Classes
- Protect Your Stocks Portfolio- Industries to Avoid, Industries to Buy
- Finally the Truth on the US Housing Bear Market

Seeking Alpha (2008)

- The Death of Wall Street: Part II
- The Most Important Warning You May Get
- The Fed's New Trick: Bailouts Disguised as Buyouts
- The Death of Wall Street: Part 1
- Payback Period is Upon Us
- Greenspan, Get Lost
- GSE Bailout: More Losses to Come
- Dollar Rally Is a Fake - Stick to Healthcare and Oil
- Employment Data: Washington is Playing Games
- Get Ready for the Earnings Meltdown

- Use the Dollar Rally as a Shorting Opportunity
- 'The Market's Down, Not Doomed': Critiquing Lee Cooperman's Barron's Interview
- How Washington Is Fooling You: Trick #2, the GDP Charade
- How Washington is Fooling You: Trick #1, Hedonic Pricing
- Getting Through the Mess in the Markets
- Bank Bailouts or Bull?
- Fannie & Freddie: Truth or Consequences (Part 2)
- Fannie & Freddie: Truth or Consequences (Part 1)
- Farewell, IndyMac: What's Next? (Part II)
- Farewell, IndyMac: What's Next? (Part I)
- Finding the Bottom in Financials
- Using Oil Trusts to Beat Inflation
- Ford "Fire Sale": A Crystal Ball for America
- 7 Stocks I'm Buying Now
- GM, Ford in the Hot Seat
- Satellite Radio Faces Enormous Challenges
- Goldman's Sirius Call: Solid Thesis, Poor Timing
- The Current Market Atmosphere: Easy Money Hard to Come by
- JP Morgan, Bear Stearns: More Smoke from Wall Street
- NAR's Lawrence Yun Continues to Mislead on Housing
- Industries to Avoid, Industries to Buy
- Stay Clear of Traditional Asset Classes

Financial Sense (2008)

- Risks of the Proposed Bailout: Part II
- Risks of the Proposed Bailout: Part I
- America's Financial Apocalypse, Part 1
- Payback is a B....
- The Plain Truth
- Short & Long Term Market Forecasts
- Here Comes the Earnings Meltdown
- How Washington is Fooling You, Part 4
- How Washington is Fooling You, Part 3
- How Washington is Fooling You, Part 2
- Using Oil to Beat Inflation
- How Washington is Fooling You, Part 1
- Stay Clear of Traditional Asset Classes

The Biggest Heist in U.S. Banking History

The Theft of Washington Mutual



10/03/2008 | Mike Stathis - Managing Principal | Apex Venture Advisors

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The following brief report represents an outline of a more detailed report and analysis to be prepared upon request under contractual terms. Further evidence of the allegations herein is ongoing.

I. Abstract

The number and velocity of events that have ensued over the past 12 months has been staggering. In the past 10 months, the acceleration of new events has become mind-boggling, making it difficult for even those who focus on the capital markets to keep up and fully decipher what is going on. For this reason, I have provided an overview of certain key events prior to discussing the central issues in question.

Over the past 3 months, the number of banking bailouts, buyouts and actions by the Federal Reserve, U.S. Treasury, SEC, FASB, FDIC, OTS, OCC and other organizations have combined to create a large amount of confusion, making it exceedingly problematic when trying to evaluate the precise nature of responses to the banking crisis. In many cases, the legalities are questionable at best. But panic has caused most people to brush aside a full analysis of these transactions. There are several bailout/buyouts that have major issues but here I will focus on the recent “buyout” of Washington Mutual. As you shall see, there are some major issues that must ultimately be addressed by a full investigation by parties outside of Washington. For now, I am requesting the SEC initiate a full investigation of certain activities that led to the theft of Washington Mutual by JP Morgan and the complete and sudden elimination of WM shareholders.

There were many factors which ultimately led to what I consider to be the biggest heist in U.S. banking history; that of Washington Mutual (WM). Confirmed players involved in this stunning and sudden takedown were the U.S. Treasury, Federal Reserve, SEC, OTS, OCC, FDIC and JPM. In addition, I have strong reason to suspect to be a huge number of insiders who profited from the WaMu takedown. Finally, I also suspect a widespread effort by unknown sources to pressure the stock via massive naked shorting, which went completely unchallenged by the SEC.

Note that of all major bank failures, WM fared the worst. They had no chance to fail. They were seized immediately, even after the OTS made claims that the bank had sufficient capital. The OTS has yet to show WM was insolvent. Evidence of WM insolvency must be made available to the public, especially to WM shareholders since they were completely and suddenly wiped out with no warning and despite several reassurances by WM and the OTS just days before the seizure. Throughout the year, WM management and Wall Street analysts continued to insist that WM had sufficient capital to fund operations (including all contingencies) through at least the 2008 calendar year. I cannot believe that net withdrawals of \$16.7 billion over a 10-day period would result in insolvency with deposits of \$188 billion. If this is indeed the case, the OTS did not act prudently to ensure adequate capital reserves. Finally, shareholders must be



provided with legitimate reasons why the Fed's Term Lending Credit Facility was not made available to WM.

II. Banking Crisis Background

Before I begin, let's go back a year and trace the course of the banking crisis. The first signs of trouble began around March 2007 when some of the mortgage companies that were holding a large number of sub-prime loans became insolvent. Yet, the market soon got over these issues as if the problems were contained, and mounted an impressive rally to new highs in just a few months. As you might be aware, in 2006 I wrote extensively about these problems and even warned of a blowup in the MBS and ABS markets with catastrophic ripple effects in the derivatives market ("America's Financial Apocalypse: How to Profit from the Next Great Depression").

Now let's retrace the past 20 months in brief.

Generally speaking, throughout the decline of a bubble there has been a new theme every month or so. And in-between these periods, the "no news is good news" sentiment often caused market rallies in the early stages, as denial remained a strong force buttressed by the deceptive media. At a later stage when "no news" wasn't enough to lift the market, pundits and CEOs come out and claimed the worst was over. First, let's look back at the past 18 months and see how things played out.

Previous Sentiment: Market Reactions from the Recent Past

(1) In late February of 2007 we saw the first signs of problems with mortgage companies that were buried deep in sub-primes.

(2) After a drop of around 500 points, the market rallied to new highs by late April.

(3) Next, the move from early March to mid-July was huge, the Dow having moved from 12,000 to 14,000.

(4) Then the avalanche began and the market dropped by 1200 points over about 4 weeks.

(5) But one day in particular (August 16, 2007) it fell to around 12,500 intraday and closed up significantly. That intraday low was a key level I knew would be retested down the road. In fact, I was certain it would fall through this 12,500 level down the road as the realities of the real estate market and banking system materialized.

(6) By early October 2007, the market made a new all-time high, of around 14,200. Many of the banks rallied, some to year highs. The market seemed to forget about the problems in the mortgage market. For those who understood the full magnitude of the problems knew this was a good time to take short positions. Incidentally, this was when I made a call to clients to short the banks. This period would mark the beginning of what

would later be the zigzag downward pattern typically seen during bear market corrections. By November, it was widely believed Countrywide would become insolvent without assistance.

(7) By mid-January 2008, the market made a very large and rapid sell off, where it tested the 12,500 intraday low made 5 months earlier. After several days at this level, it fell through this psychological support within 4 days. Next, the market made another intraday low on a huge sell-off to 11,500. But once again, as in August, the Dow closed strong. I was confident this intraday sell-off would serve as another psychological support, which I felt would not hold. Much of this huge intraday sell-off was due to the news of problems faced by the bond insurers. Although they had experienced problems in late 2007, the problems at **Countrywide** overshadowed everything else at the time since most felt it was the strongest of all mortgage companies. In other words, if you were on top of things, you should have expected the problems with the bond insurers to take center stage after the Countrywide news faded. And in January that is exactly what happened.

(8) By early March of 2008, chart analysis confirmed a trend reversal that was highly suspected from the January market sell-offs.



(9) Yet, by early May, Wall Street and the media managed to prop the market back up to 13,100. Of course, if you had looked at the chart, you would have easily identified this as a bear trap.

I released an article "Stay Clear of Traditional US Asset Classes" on May 4, 2008 explaining what had happened, where we were and where we were headed. I concluded that the market was overextended both in the short and intermediate-term and advised investors to start selling with an emphasis on taking short positions in the financials. I also emphasized that investors wishing to remain invested in the U.S. market should



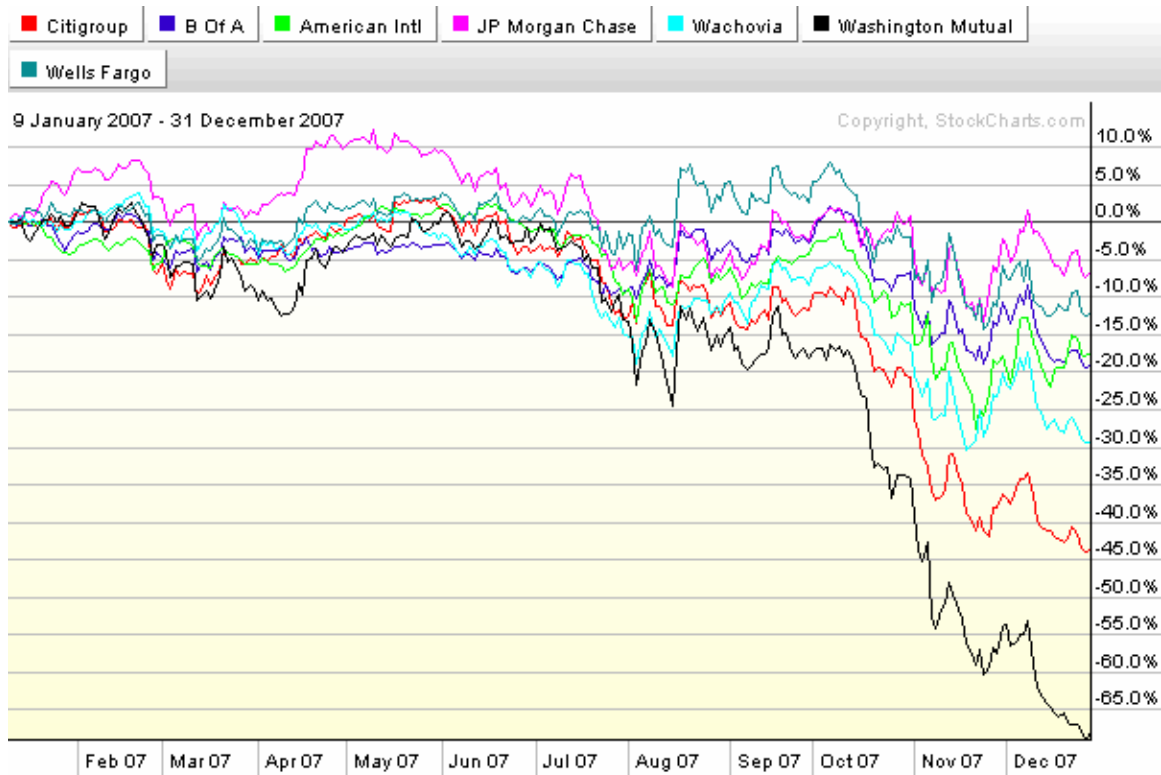
only consider investing in the oil and health care (longer-term) industries. I was confident we would retest the intraday low made in January 2008 of 11,500, followed by a break down to hover around 11,200.

(10) Since the release of that article, the market has fallen to 10,731.

(11) Anchored by high volume, the Dow has since bounced off of this low and has rallied to 11,450 level. This was sparked by the Fed's bailout plan for Fannie and Freddie. The rebound from the 10,700 range was indeed critical, as there was very little support down to the 10,200 level.

Since that time, we have seen the bailout of Fannie, Freddie, AIG, the buyouts of Merrill Lynch, Lehman and Washington Mutual bankruptcies, and finally the passage of a bills that promises to bailout the entire financial system.

As you can see from the chart below, the financials didn't really start to feel the heat until October 2007. Incidentally, I made calls to my colleagues to short the banks in early October when Bank of America reached a new high. To me, it was a clear signal to go short given the turmoil that was apparently unseen by most. My timing turned out to be right. Notice that by the end of 2007, Washington Mutual had already declined by nearly 70% for the year.

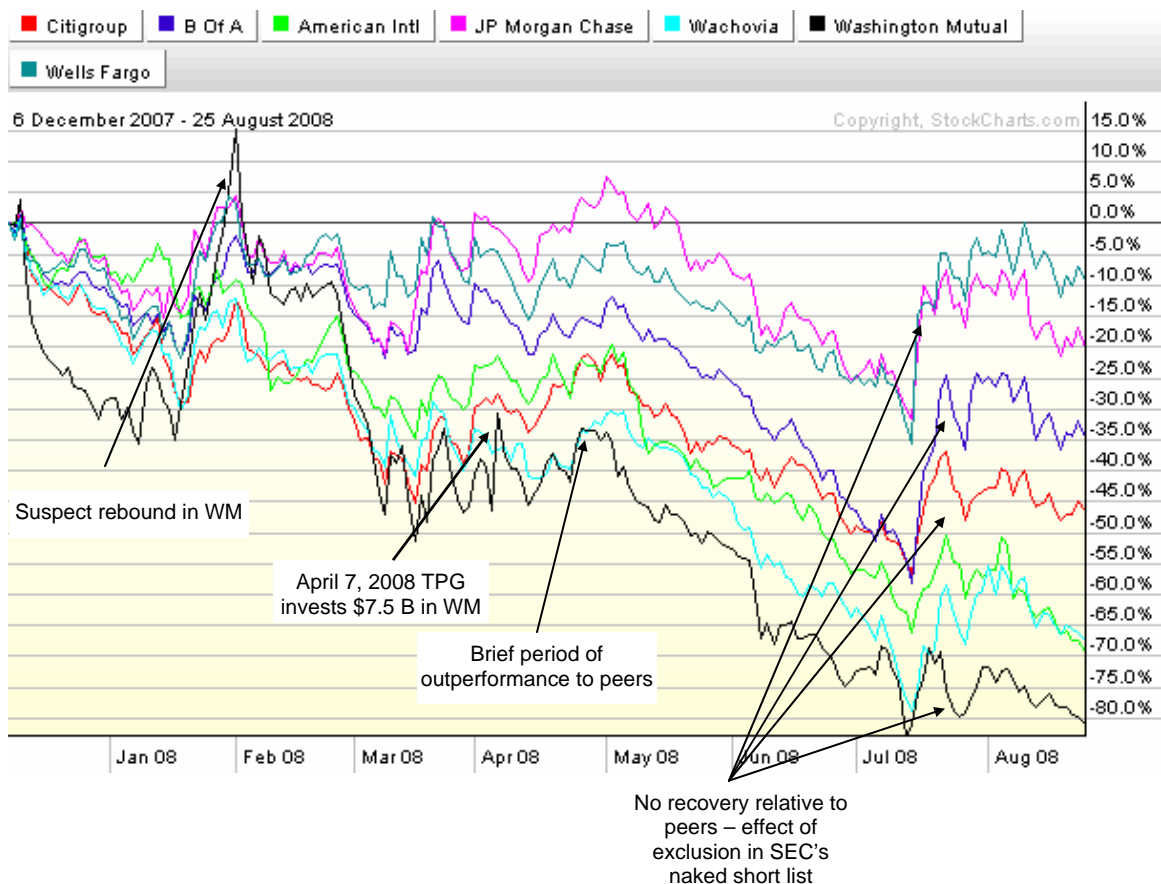




After the first major market sell-offs in January, you can see that Washington Mutual made a remarkable recovery by the end of January of some 45% from lows reached only a couple of weeks earlier (see next chart). Most likely, this strong rally was sparked by short covering which encouraged long positions.

By early April 2008, Texas Pacific Group had invested \$7.5 billion (\$5.5B in convertible preferred stock and \$2B in common stock) in WM at a price of \$8.75, or a discount of 33% to the closing price (over \$13) of the transaction. One could justifiably conclude this would be a very strong indicator of support given the size and reputation of TPG, as well as an implied commitment that TPG would be willing to engage in an all-out buyout if need be.

Apparently, the guys at TPG were either uncommitted or they did not understand the full nature of WM's risk exposure. Alternatively, they may have not realized that unregulated naked shorting would be the real force that would serve to take WM down. After all, naked shorting has always been illegal according to securities laws. Either way, **the lack clear lack of planning by TPG and failure to commit to an all out buyout of WM prior to investing \$7 billion is completely reckless in my opinion and should spark many lawsuits by their investors. It was one of the worst investment mistakes made in U.S. history.**





On July 15, 2008 the SEC issued an emergency order to suspend all naked shorting for 19 financial firms. According to sources at the SEC, this list was created by the exchanges. This order was effective on July 21, 2008. It was later extended until August 12, 2008. On September 17, 2009, **SEC Chairman Cox issued a permanent ban on naked shorting of all stocks, as if to imply the regulations set in place to bar naked shorting never existed despite Regulation SHO passed in 2005 and the Act of '34.**

Now I'd like to provide some perspective as to what is really going on with these bailouts and buyouts that have been disguised as buyouts. As I discussed on July 13, 2008 (Farewell Indy, What's Next Part II, Stathis Copyright © 2008),

When the smaller banks fail, the "Big 5" will snatch them up at pennies on the dollar compliments of Bernanke's printing presses. **Maybe now you can see why every nation wants to get as far away from the dollar as possible. They understand the worst is yet to come.** Bernanke's "Big 5" banking bailout is only ensuring the dollar crisis will continue. However, no nation will be able to completely escape the effects of the falling dollar since it remains the universal currency. It is deeply embedded within global commerce and has extensive reach throughout the global financial system.

I reiterated this control by the Fed when discussing Bank of America's "buyout" (bailout) of Merrill Lynch, disguised as a buyout (below).

Bank of America's buyout of Merrill Lynch seemed laughable to me - that is until I realized the full picture. With a \$50 billion all-stock deal valued at \$29 per share, at first glance it might appear that Bank of America doesn't stand to lose much considering its stock is at least 50% overvalued by my analysis. However, even at an adjusted price of \$25 billion, Bank of America will be responsible for absorbing all of Merrill's losses. Good luck. But wait. They don't need luck, they have the Fed.

I could care less about Merrill's 49% stake in Blackrock. No financial institution is infallible under these conditions and only an idiot would rush in to buy Merrill at \$50 billion. They are on the hook for a huge amount of mortgage securities. And their brokerage unit has been fighting a massive decline for years. In fact, I expected them to eventually sell it off.

While I can guarantee you all bank CEOs are lost in the woods, Bank of America's CEO, Kenneth Lewis can't be that stupid. Think about it. Lewis already committed to a buyout of troubled Countrywide well before he realized how bad things would get. How much blind risk can Bank of America handle? A lot if they are given a blank check by the Fed. And the fact is that they have been, along with the rest of the banking cartel. I'm quite confident Lewis was approached by the Fed and U.S. Treasury with promises of extra assistance, if needed, in exchange for buying Merrill. That is precisely why the bank offered a 70% premium for the struggling firm. Think about it. Merrill was on its way to single digits so why not wait? Better yet, why offer a 70% premium to its Friday closing price? This is the worst banking crisis in U.S. history and they're offering 70% premiums?

It appears as if we are witnessing government bailouts using taxpayer money that are being deceitfully disguised as buyouts. Not just with the Merrill buyout but also this newly established \$70 billion emergency bank fund, set aside to help out banks with future problems. Where do you think this money is coming from? The banks certainly don't have



it. It is coming indirectly either from the Fed or the U.S. Treasury. That is precisely why the Fed just opened up the types of securities for Schedule 2 auctions that can be used as collateral for borrowing from the Term Securities Lending Facility. Now all investment-grade securities can be pledged. In addition, the amounts auctioned have been increased by \$25 billion to \$200 billion. The problem is that what may be investment-grade today could easily become junk next week. In fact, as I have stated in the past, we are going to see a huge junk bond market soon. Already, corporate defaults are soaring.

<http://www.marketoracle.co.uk/Article6274.html>

Remember, the Merrill Lynch “buyout” occurred swiftly over the weekend when there was already a crisis with Lehman and AIG; the same weekend the derivatives market was opened (on a Sunday) for Lehman to close out its trades. Yet, this “buyout” by Bank of America took everyone by surprise and was never discussed prior to the announcement. On Monday, Lehman filed for bankruptcy protection and two days later the Fed announced an \$85 billion bailout for AIG. So why was AIG bailed out while Lehman was left to the wolves? It all has to do with who you know in high places and whether they like you. Is there any relevance to the fact that the AIG bailout saved Goldman Sachs from losses estimated at over \$20 billion? What about the mysterious \$168 billion handed to JP Morgan by the Fed to shuttle to Lehman on the day of its bankruptcy filing and on September 25, 2008 (as reported in Lehman’s bankruptcy documents)? Are all of these things mere coincidence? Only if you are naïve. Only if you rely on America’s propaganda media machine for your information. There are some very suspect activities going on in this crisis and they are escaping notice by almost everyone because so many things are happening so fast.

a. Bear Stearns vs. LTCM

Let’s look at some “bailouts” from the past. Let me just tell you right off the bat - **Bear Stearns did not receive a bailout.** Forget what you’ve read. They’re all wrong. Why do I say this? A true bailout creates a “free ride” for the recipient via government assistance. In other words, a bailout creates a moral hazard - the tendency to behave irresponsibly and/or take on excessive risk - because the penalty for failure has been removed. Thus a moral hazard causes the bailed out company to act irresponsibly in the future, knowing that failure will be forgiven by taxpayer dollars. **Rather than a real bailout, the Bear Stearns deal was a gift to the "kingpin" of the Federal Reserve banking system – JP Morgan - and likely the Fed’s punishment to Bear for not participating in the "bailout" of Long Term Capital Management (LTCM) a decade ago.**

In the case of LTCM, participating banks received a 90% stake in the fund for money THEY CONTRIBUTED. But similar to the Bear Stearns deal, there was no moral hazard created for LTCM because they had to exchange ownership for cash. In the Bear Stearns deal, the Fed handed JP Morgan \$30 billion of taxpayer money, while guaranteeing JP Morgan’s potential losses would not exceed \$1 billion. Considering Bear’s clearing and prime brokerage units are most likely worth \$18 billion, plus Bear’s \$1 billion Madison Ave. headquarters, plus JP Morgan’s ability to keep Bear’s best employees (probably valued around \$2 billion including revenues from client accounts),



minus restructuring and retention charges of say \$2 billion - JP Morgan will net somewhere around \$18 billion on the deal with virtually no risk. Make no mistake about it - **this deal will be recorded as one of the biggest financial heists in U.S. banking history once people truly understand what really happened.** The Bear Stearns "bailout" occurred with taxpayer dollars and presented absolutely 0 risk to JP Morgan I am sure many banks would have loved this sweet deal. But it was handed to JP Morgan.

The point is that neither LTCM nor Bear Stearns received real bailouts because each was forced to sell all they had to suitors, which eliminated any possibility of a moral hazard. You won't create a moral hazard if you're business has been shutdown or handed over to another firm. **Rather than being bailed out, they were put on the auction block with no "get out of jail free" card.** Note that on the day Bear Stearns was handed to JP Morgan, the Fed announced it would provide emergency cash to investment banks...something not done since the great depression. Why was this not done prior to handing Bear Stearns to JP Morgan?

b. The Monthly Bailout

Since November 2007, the limits have been raised each month and now stand at limit of \$400 billion for the month of September. In the last week of September alone, banks utilized these auction facilities for a record amount of \$148 billion. Most recently, **as of October 6, 2008, the Federal Reserve has increased this monthly facility to a whopping \$900 billion. Of course it was only the banking cartel that was able to access this money (combination of dollars and U.S. Treasuries). As collateral for these loans, banks pledge "investment-grade" securities.**

Early on these "investment-grade securities were restricted to mortgage-related (i.e. MBS). However, over the past two months, the Federal Reserve has opened this collateral to include all "investment-grade securities. As we know from the recent past, what is investment-grade today can easily become junk tomorrow. This is especially true considering the fraudulent activities that have been uncovered regarding the credit rating agencies. This too is an issue that should be addressed by the SEC although I will not delve into it in this report.

In total, the Federal Reserve and U.S. Treasury have loaned the banking cartel nearly \$2 trillion through these auctions. This does not count the other emergency funds from the Fed such as the recent \$2 trillion to money markets and \$600 billion to the credit default swaps market and other emergency liquidity measures. Finally, this amount doesn't include the sums allocated for the bailouts of BSC, AIG, FNM, and FRE. I would like to note that the Fed also lent JPM \$168 billion to be allocated to LEH, one portion just prior to its bankruptcy filing and the other on the same day WM was seized by the OTS. At least some of this has been returned to the Fed.

When it's all said and done there will only be the big 5 banking cartel standing, with much of America's 8500 banks failed and bought up by this cartel using taxpayer money. For now, let's forget about the \$5 trillion plus in bailout and other money that has been pumped into the banking system by the Fed and U.S. Treasury. For now, let's forget



about all of the bailouts that have been disguised as buyouts. Now let's look at the details of what will go down as the biggest heist in U.S. banking history to date.





III. Washington Mutual

In my professional opinion, based on what I observed, the heist of WM was a combination of premeditated destruction by certain institutions, incompetence by CEO Kerry Killinger, the SEC, and OTS, and theft by JPM compliments, of tax dollars arranged by the U.S. Treasury and the FDIC. Finally, to top it off, a significant amount of insider trading appears evident.

Failure to include WM on the naked short list allowed banks and hedge funds to short it down to the ground. This caused customers to be concerned who then withdrew deposits. This triggered liquidity concerns by the thrift regulator (OTS), which seized the deposits after stating WM was insolvent. The OTS handed the deposits and assets of WM over to the FDIC which brokered the deal with JPM via the OCC. Yet, **I have still not seen any proof of insolvency. Just because the OTS claimed WM was insolvent does not mean that it was. At the very least, shareholders must see evidence of this. The entire sequence of events appears to be illegal in my unqualified opinion.** This is a matter for the chief counsel at the SEC to investigate. The largest bank failure in U.S. history has been funded by taxpayers in an orchestrated scheme by the FDIC. Why would the FDIC do this? Perhaps to protect its dwindling reserves.

a. Evidence of Insider Trading

On September 25, 2008, 411M shares traded (average trading volume is 116M). Note that the average trading volume of 116M is a reflection of the most recent few months in which WM was often the most active stock. I do not know how far back trading volume calculations go but based upon my observations, I would have to say they extend back no further than 5 months. Prior to this time, the average volume was much less and perhaps less than half of the 116M shares. Why is this significant? It plays into my suspicions that there was a concerted effort by several institutions (banks, hedge funds or both) to take WM down. I based this hypothesis on my close daily observation of the stock since February 2008 relative to the price performance of other comparable financials (in size and financial distress) and relative to the performance of the market.

Finally, these conclusions have been based upon unexplainable reactions to sentiment. That is, in almost every instance, I could explain the price movements of C, BAC, WFC, JPM, BSC, LEH, MER, GS, WB, NCC, etc. However, more times than not, I was unable to account for the almost uncanny movement of WM on a daily basis. In fact, there were numerous days in late February through May when WM had intraday swings of 10%, and many days of 15% or more. This can be confirmed by a detailed analysis of intraday movements. Here, I do not take the time to confirm what I already know.



Why was the share price of Washington Mutual down so much on September 25, 2008 when the word on the street was that the bailout was going to be passed? The Dow closed up nearly 200 points and all bank stocks were up. The earliest news release on this was 4:28pm. I would say it went out on Reuters after market close explaining the massive sell-off in after hours trading. But what about regular hours??

Below is an intraday chart of Washington Mutual on September 25, 2008. As you can see, the stock sold off throughout the day with virtually no rebound. Notice the spike in volume at the close. That could be when official word went out but have not been able to confirm it. Even if the word hit the newswire at 4pm EST, how can we explain the stock's 25% sell-off on a huge volume on a day when the consensus was that the bailout plan would be passed?



After issuing this preliminary report, I received information confirming my suspicions regarding the illegal seizure of WM assets and deposits and the complete destruction of shareholder equity. I was informed that my contact received a call one hour prior to the official public release of the OTS seizure of WM from an executive at WM. This individual stated that the reason for the seizure was “political in nature.”

If my contact was alerted one hour prior to the official news releases, how many others were alerted prior to that period?

Below is the intraday chart of JP Morgan. As you can see, the stock performed quite nicely on the heels of what was expected to be the announcement of the bailout approval. In fact, as you will see later, it significantly outperformed all other bank stocks.



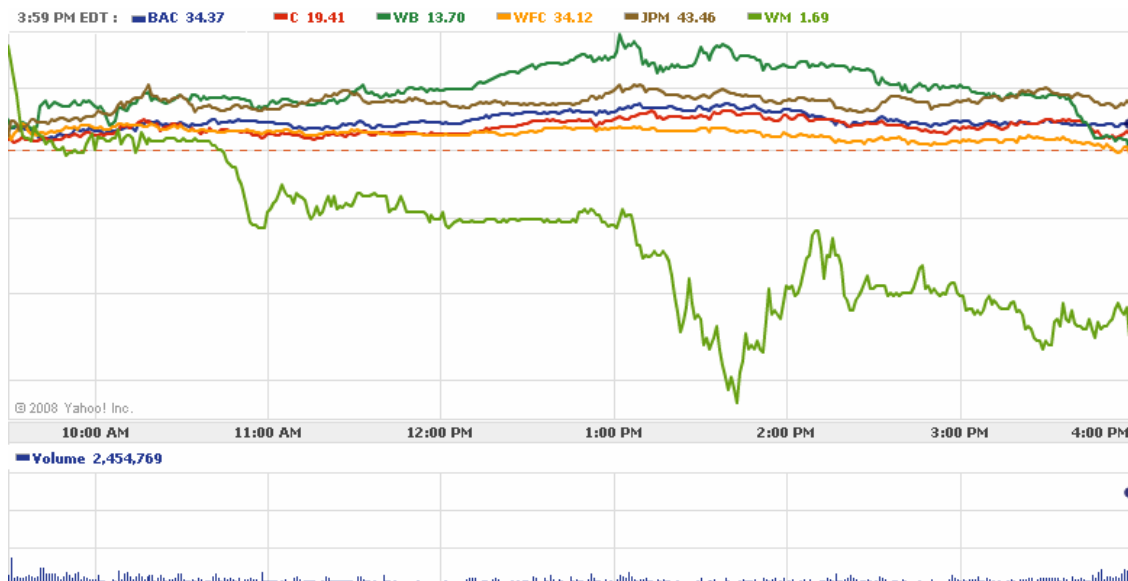
The next chart shows the previous five trading days for Washington Mutual. While several material events were announced, (multiple credit downgrades, etc.) the stock held up after these downgrades. This implies considerable price strength on a relative valuation perspective. Perhaps this relative strength was due to the anticipation of the passage of the U.S. Treasury's bailout plan.



Notice the rise in JP Morgan began on Wednesday, September 25, 2008, precisely when WM began to fall.



Now we examine an intraday chart of several bank stocks to place the precipitous fall of Washington Mutual into perspective. This chart really provides significant evidence of insider trading on a large scale. With 411 million shares of WM traded that day, and the anticipation of the bailout plan being passed very soon, I cannot imagine any other viable reason to account for this massive sell-off other than insider trading.



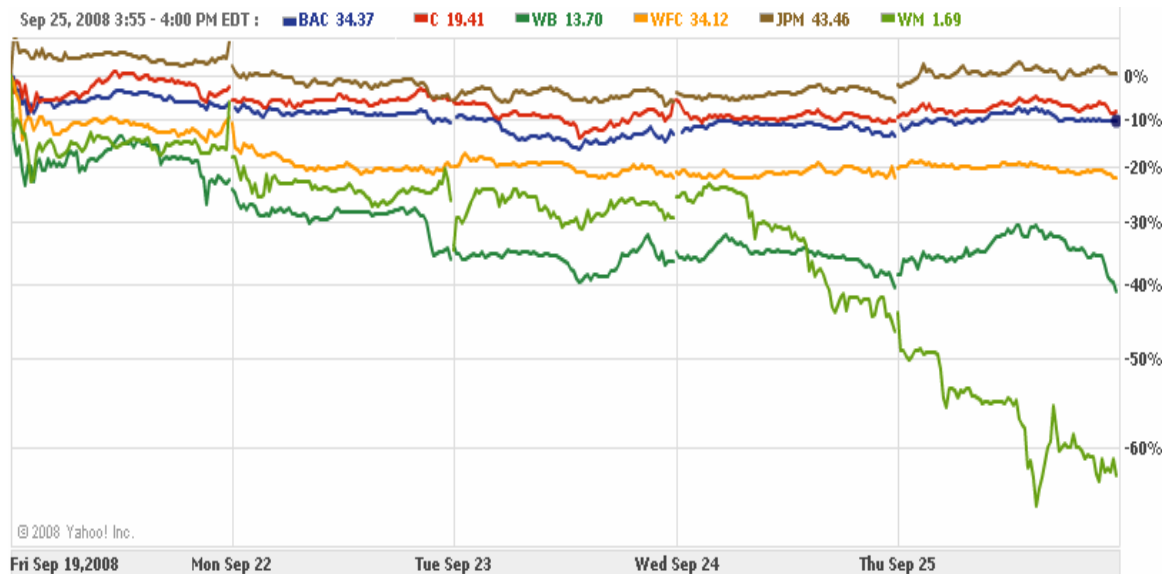


BAC up 3.93%
JPM up 7.3%
C up 2.37%
WB down 0.72%
WFC down 0.44%

WM was down 25.22% for the day and down another 73.37% in after hours trading. Exactly when was the news released regarding the WM seizure?

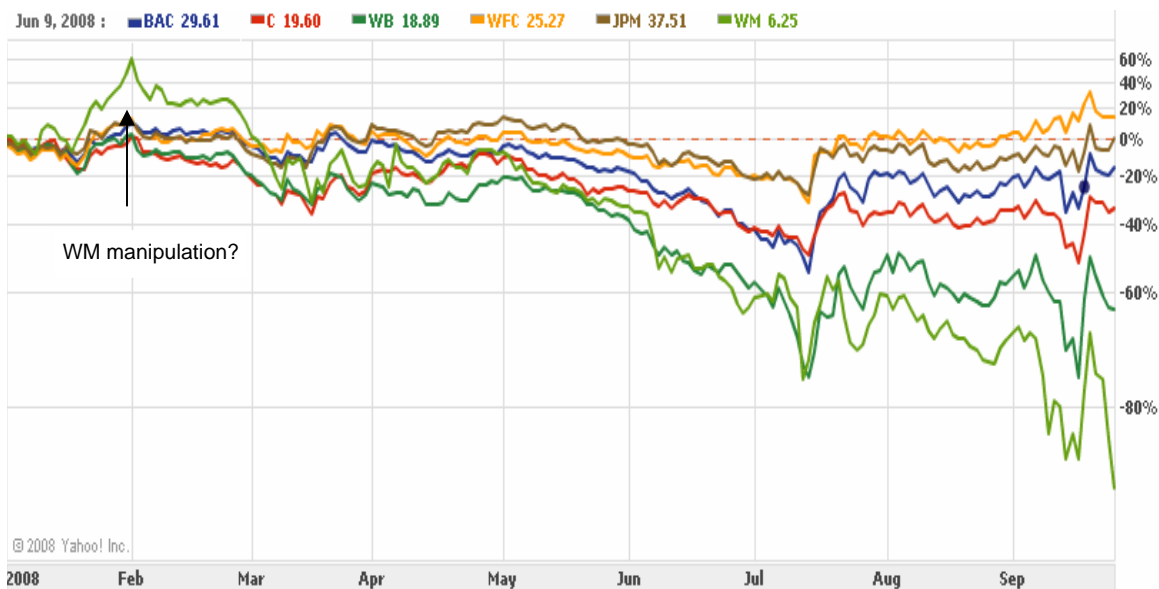
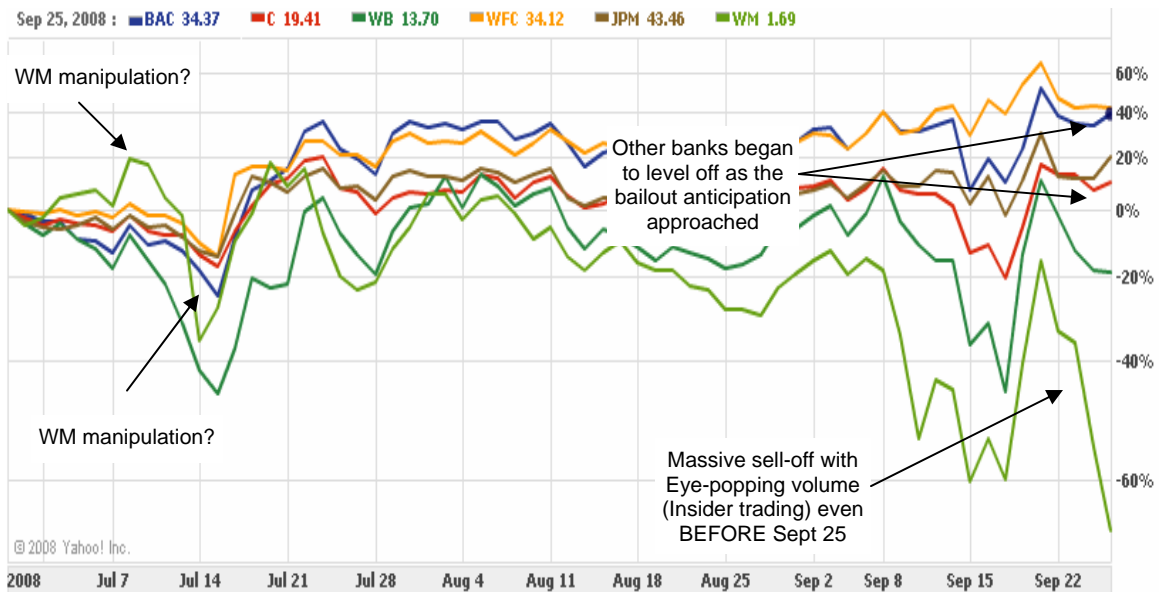
I had been warning investors about a WM collapse for months, but only based upon the price performance. Fundamentally, **all publicly released information (including statements of WM) led investors to think that the bank was safely funded through at least the rest of 2008.** Based on what I have seen, it appears there was some uniform effort to take WM out. At the very least, I am certain insider trading took place.

I would be interested to see the short positions of WM in the accounts of all the major banks (esp. JPM) and their related funds, as well as their prime brokerage customers who could have shorted WM due to a rumor mill spread from these banks. In fact, it is the legal obligation of the SEC to investigate this data. Note WM was never included on the SEC's Naked Short List. The financial and market data (short interest ratio) indicate that WM should have been at the top of the list. This clearly puts SEC Chairman Cox on the hot seat.

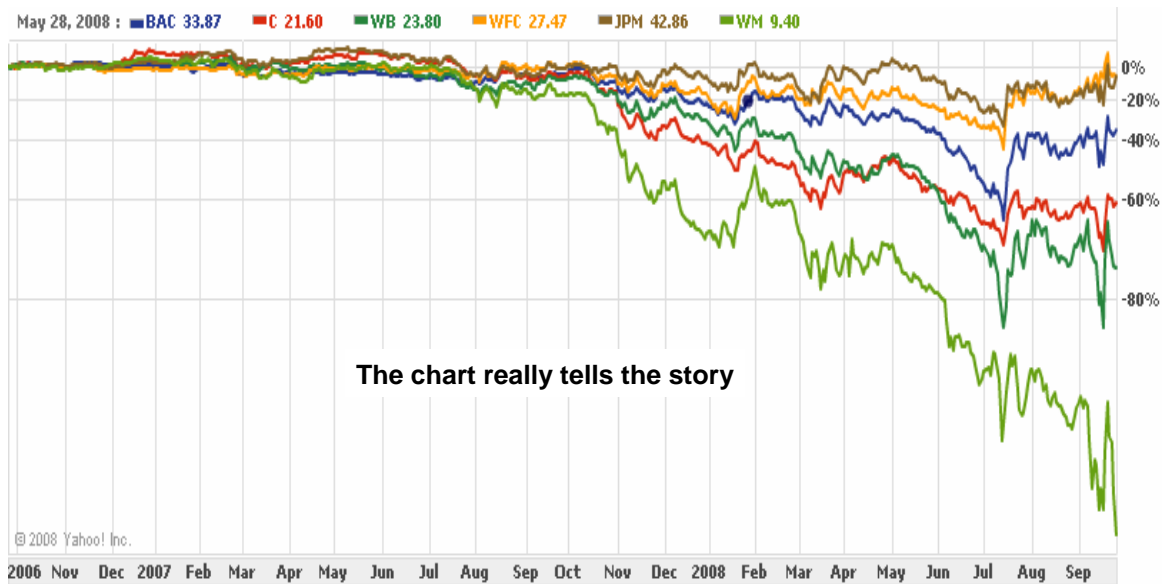
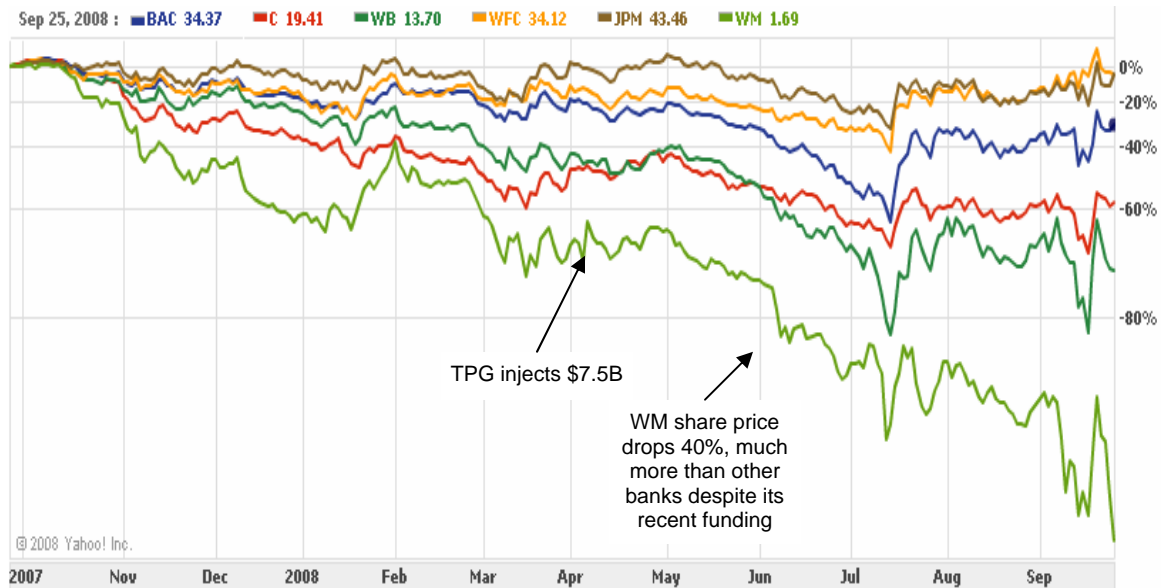


b. Unified Efforts to Take WaMu Out

The charts that follow support the hypothesis of a unified effort to take WM down. To really get a good picture, you will have to go back and check the daily closing prices for each stock, weigh this with the market performance and daily sentiment. In the next chart, notice the 50% swing in WM in one week. While WB also experienced a large sell-off, it was only 30%. As well, WM soared then sold off while WB simply sold off. Thus, there was a huge buy in followed by a massive sell-off all within one week. Note that this also occurred during the announcement of the naked short list which did not include WM or WB. **Either way, there was at least SEC negligence involved and possibly stock manipulation.**



I find it extremely odd that WM share price sank from \$13 to \$9 within 2 months of TPG injecting \$7 billion into the bank at a price of \$8.75.





c. SEC's Role

The SEC has certainly not been asleep during this crisis. The problem is that the leadership has. **In my opinion, Chairman Cox has partnered with the Fed and U.S. Treasury to rob the people. A clear lack of oversight and a waver of mark-to-market accounting for financial firms have accentuated the deceit and lack of any charges being brought against the crooks that orchestrated this mess. But the SEC's role extends even deeper and has led to more direct consequences of this crisis.**

When SEC Chairman finally awoke from his apparent deep sleep, he issued a naked short list on July 21, 2008. **This list was inspired by the insolvency problems at Fannie Mae and Freddie Mac and was really meant to help these firms. However, in addition to their inclusion, an additional 17 financial firms were included – none of which needed to be on the list.**

SEC Naked Short List

Citigroup	Fannie Mae	Allianz
Bank of America	Freddie Mac	Royal Bank
Goldman Sachs	BNP Paribas Securities	HSBC
JP Morgan	Barclays	Mizuho
Lehman Brothers	Credit Suisse	UBS
Merrill Lynch	Daiwa Securities	
Morgan Stanley	Deutsche Bank	

These banks were under no real short interest pressure (and therefore naked short selling was not a threat based upon examination of the short interest ratios of these banks with the exception of Fannie Mae and Freddie Mac). In addition, these banks were at the time in fairly strong financial shape relative to many others such as NCC, WM, WB, ETFC, FTIB and dozens of other publicly traded banks.

I recall the short interest ratios to be in a normal range that one would see for any stock such as 1-4%. I did not examine the short interest ratio data for the foreign banks. Once again, this can all be confirmed upon examination of previous data using a Bloomberg terminal or other high level trading resource. Short Interest Ratio for WM rose from 25% in July to 32% in September (due to not being included on naked short list).

Let me be clear. **For the SEC to come out with a Naked Short List when naked shorting is highly illegal, this really drives the message home that the SEC serves no one but Wall Street. But when this only includes the government's mortgage companies and the banking cartel while excluding the banks that needed to be on it, that tells you who the SEC works for and it certainly isn't the people.**



I would like to know what Chairman Cox was doing the entire time WM, WB, and ETFC were being shorted illegally. Did he even bother to check the short interest ratios? He will need to be held fully accountable for his actions.

I am still trying to figure out why IBM is on the shorting ban for some 800 financial firms. Perhaps Chairman Cox would like to respond to this.

d. Office of Thrift Supervision

The Office of Thrift Supervision (OTS) is a bureau of the U.S. Treasury. It regulates and supervises the nation's thrift industry, as its mission to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. Did the OTS serve its stated missions? Why did the OTS fail to discover or disclose the blatant illegal activities, fraud and negligence conducted by WM?

“On the week of September 15, 2008, WaMu announced that it has entered into a Memorandum of Understanding (MOU) with the Office of Thrift Supervision (OTS) concerning aspects of the bank's operations, principally in several areas of its risk management and compliance functions, including its Bank Secrecy Act compliance program. Per requirement by the MOU, WaMu has committed to provide the OTS an updated, multi-year business plan and forecast for its earnings, asset quality, capital and business segment performance. **The business plan will not require the company to raise capital, increase liquidity or make changes to the products and services it provides to customers.**”

From the September 25, 2008 press release by the OTS,

"An outflow of deposits began on September 15, 2008, totaling \$16.7 billion. With insufficient liquidity to meet its obligations, WaMu was in an unsafe and unsound condition to transact business. The OTS closed the institution and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. The FDIC held the bidding process that resulted in the acquisition by JPMorgan Chase."

Shareholders need to be presented with the full record of the bidding process to confirm the process was fair and included more than JP Morgan.

The Office of Thrift Supervision made public disclosures several days prior to the seizure of WM indicating they were not requiring the bank to raise additional capital at that time. They concluded that WM had sufficient capital throughout 2008. This is the same analysis made by analysts and WM. OTS officials might counter that they were unaware that \$16.7 billion in deposits would be withdrawn from September 15 to September 24, but this is a ridiculous excuse. **If you are responsible for regulating a financial institution to ensure it meets liquidity during the biggest banking collapse since the 1930s, is it not reasonable to account for sufficient capital reserves to account for the possibility of large abrupt withdraws?**



I have to conclude two things about the OTS. Those in charge are ridiculously incompetent and should face criminal charges due to the release of false statements. Second, I have no doubt that the FDIC and U.S. Treasury had a large role in the decision of the OTS to seize WM. What incentive would the FDIC have to encourage the OTS to seize WM? With around \$45 billion in reserves, if WM failed it would wipe out the agency causing widespread panic. If this was the case, surely there are many better ways that would have saved WM.

I find it tragic and odd that after the WM seizure, the Fed stepped up to add \$2 trillion for money markets. **Why was WM not able to borrow any funds from the Fed auction window? Why won't the Fed state the fact – it is only handing out money to the banking cartel.**

I have yet to see proof that WM was insolvent. The OTS must disclose evidence that has been audited by an independent accounting firm that WM was insolvent. This is a must. And the SEC should demand it immediately.

I find it suspicious that OTS ombudsman was more interested in finding out who I was and if had a website after I informed him that I would go public with the WaMu scam. I advise anyone who was a WM shareholder to call the Office of Thrift Supervision at 800-842-6929, but don't expect a response. They have the phones manned with people who will direct your questions about WM to the Office of the Comptroller of the Currency. They are basically passing the buck. The OTS seized WM not the OCC. Demand shareholders get paid a fair price for WM. I would estimate that price to be that paid by TPG in the Spring or \$8.75 per share.

Why does the OTS continue to deny all requests to show proof of the alleged “insolvency” of WaMu? Shareholders have a right to see third-party audits of all financial statements. The SEC must address this.

e. Federal Depository Insurance Corporation

The FDIC was created as a government corporation in 1933 as a part of the Glass-Steagal Act in response to the banking crisis that triggered the Great Depression. Its role in this charade must be investigated immediately. **It is clear to me that FDIC Chairman Shelia Bair worked with the Fed to orchestrate the seizure and sell of WM to JP Morgan. After speaking with the FDIC Ombudsman, I received the typical BS one would expect. These people have no idea what is going on and are not even aware of the banking cartel. FDIC Chairman Shelia Bair has yet to return my calls.**

For the ridiculous price tag of \$1.9 billion, JP Morgan took control of WM's \$188 billion in deposits. That comes out to \$0.01 for each dollar of deposits. In addition, JP Morgan received WM's \$307 billion loan portfolio – for free. Folks we are not talking here about the kinds of assets held by Lehman, AIG or others. This is a thrift. The vast majority of assets are loans not derivatives. The bank owns real estate, not exotic derivatives. Therefore, at the worst of scenarios – that is, even if most of these loans defaulted, JP Morgan stands to gain big, just as they did with



the heist of Bear Stearns. It is very disturbing that WM shareholders were wiped out, including TPG's \$7 billion investment, while JP Morgan was able to buy WM outright for less than \$2 billion. That's the kind of deals you get when you are the kingpin of the Fed banking cartel.

The fact that the FDIC supports the terms of the Citibank-Wachovia \$2 billion bailout using taxpayers funds over Well Fargo's offer of \$15.1 billion of its own money raises question as to the role of the FDIC's involvement if America's banking cartel. This cartel, consisting of C, BAC, JPM, GS and others has been for some reason given the privilege of bidding for emergency funds from the Federal Reserve's action facilities, first initiated in November 2007. As you may know, this action facility was enacted as an alternative to provide banks with liquidity since the discount window was not working. In essence, banks did not know what kind of junk they contained on their balance sheets but they knew they were in trouble and they were unwilling to lend to other banks fearing failure to repay.

The FDIC has acted inappropriately and illegally in attempt to avert a panic and save its own dwindling reserves, which have since been issued a virtual blank check. And it has used its influence on the OTS to execute this politically motivated heist. The heist of WM did not have to happen. Shareholders got screwed. They must be compensated. And all who I have mentioned should undergo an immediate investigation.

f. JP Morgan Chase

Now with WM's 2200 locations, over \$188 billion in deposits and over \$307 billion in assets, JP Morgan stole another bank. And because JP Morgan continues to exchange what will soon be junk bonds for U.S. Treasury securities, this money – a paltry \$1.9 billion – was a complete joke but it is tax payer dollars. How can JP Morgan lose in the deal? It is impossible just like its previous Bear Stearns deal. Upon delivery of WM's assets, management immediate wrote down \$31 billion which produced an immediate tax write-off of nearly \$11 billion.

JP Morgan has downplayed the earnings improvement due to the heist of WM and has stated the deal will added \$0.50 per share in 2009. I can guarantee you earnings will be much higher in subsequent years. And what do WM shareholders get? O

g. WaMu CEO Kerry Killinger

What I would like to know is what Killinger was doing while his bank was sinking. Month after month, he sat doing not much of anything.

Alan Fishman, the new CEO of WM was only on the job for 17 days but leaves with a severance package of \$20 million. Annualized, that comes out to nearly \$430 million. This is why America is finished. CEOs are way overpaid even when they do a good job. But when they destroy companies they are also ridiculously compensated. This clearly

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EARLY DRAFT

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robs shareholders. But it also robs them indirectly because the ridiculous pay does not provide an incentive to do well.

My advice to Fishman is to forgo all compensation or he will certainly be faced with legal actions. More important, he will have to deal with this unethical situation for the rest of his life.

Ultimately there are several villains responsible for this charade – Killinger, the Chairmans of the SEC, FDIC, OTS, OCC, and the insiders. In addition, an investigation should begin immediately to determine if in fact there was a uniform effort to take WM out via naked shorting. They should all be investigated and brought up on criminal charges.



IV. Recommended Directives for the SEC

In the future I will be submitting a proposal to the next presidential administration and other agencies regarding my recommendations for needed changes to the SEC. Among these changes, briefly:

- Whistle blower laws that apply to employees of corporations should be included and fully encouraged by everyone in the financial industry. All suspected illegal activities or investigative studies submitted by financial professionals should qualify for blanket protection from retaliation. The SEC should provide measures which encourage whistle-blowing for those who see fraudulent activities. And a monetary award should be provided for successfully changed cases. This will serve as a very helpful force towards the SEC's mission of enforcement of all securities laws.
- Future SEC Chairmen need to be enforcement officials rather than politicians. They must be detached from the White House and given the leverage to act on parties thought to represent the most damaging levels of fraud. This means they should be proactively monitoring all market makers and floor traders on a daily basis, rather than waiting for 10 years before an outside party discovers foul play. This is something expected by the American people and it is mandated by interpretation of the Securities and Exchange Laws of 1933, 1934 and others since then.
- It is obvious that the SEC has been intentionally structured to keep its key staff buried in paperwork and bureaucracy, preventing them from serving as an investigative and enforcement arm of the securities industry. Throughout the years speaking with numerous staff members, they have informed me that they feel powerless to take a more proactive role. In many cases, they have also expressed frustration after having many needed reforms being pushed into a closet, never to be seen again. It is obvious to me that Chairman Cox knows well what is going on and while he may not be responsible for the designed incompetence of the agency, if he were an honorable man he would have resigned shortly after realizing the hypocrisy that now characterizes the SEC. As a partial solution to overcome the bureaucratic barriers that hinder the efforts of the staff, the SEC should create a fund dedicated to compensating industry experts who submit credible issues of fraud. As well, these experts should be contracted for hire on certain cases as needed by the SEC. Each submission should be held accountable to an agency outside of the SEC such as the Department of Justice to ensure that it receives the proper consideration. I continue to be shocked at the lack of understanding SEC attorneys have of the illegal activities I observe in the capital markets. Most likely, they are being micromanaged so they are unable to see anything other than the task that is laid out before them.
- Ultimately the SEC has failed to protect investors from massive fraud that has been a daily occurrence for over a decade now. Thus, a radical restructuring is

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necessary. Ultimately, the SEC should be overseen by an organization that is disconnected from Washington politics to ensure those in charge are held to the highest standards, remain committed to serve the original intended missions of the SEC, and are held accountable for their actions or lack thereof. Obviously, such a proposal would be viewed by SEC officials as a threat to their authoritative responsibilities. As a result, I would not expect this recommendation to receive any level of serious consideration. Asking an agency to create an independent party to oversee its actions and hold its officials accountable is not something one can expect in America. Therefore, I will be forwarding the details of this and all other recommendations to other government agencies, watch dog groups, etc.

- The SEC must hold corporate executives and others fully accountable for fraud, neglect of duties, and other practices. Already, thousands of individuals escaped criminal and even civil prosecution from the events surrounding the dotcom collapse just a few years ago. It appears as if the same thing is going to happen with the current real-estate/banking collapse. This is a complete farce. Today, the SEC resembles the FDA, both serving the interests of the industries they are supposed to police.
- Media firms that engage in a certain amount of financial news and commentary should be regulated by SEC regulations in a manner similar to broker-dealers since they are receiving indirect payments (via ad revenues and favors) from those who deal in securities (analysts, fund managers, etc.) as well as those who are also directly involved in the securities markets (corporations via ad revenues – i.e. interviews with CEOs, etc.).
- The mutual fund industry is still largely unregulated. I can cite numerous examples of situations whereby investors are exposed to illegal sales and marketing practices, excessive fees are charged but customers are not aware of them, etc. The SEC must begin to regulate mutual fund companies on a level that is meaningful. Such regulation should be focused on marketing and advertisements. I can list numerous examples of what I would consider unfair business practices at best and illegal activities at worst by the mutual industry. I shall save this for a separate report to be composed at a later date.
- The SEC should regulate all radio, television and print advertisements by mutual funds, Wall Street firms, online brokers, insurance companies offering investment products. The SEC must understand and acknowledge the media is serving as a quasi-broker/dealer is receiving advertisement revenues in exchange for providing a venue for investment analysis and advice. The associations are clear. And I have spoken to several SEC attorneys who agree fully with my position. The most blatant examples are to be found on CNBC and Fox Business Network.
- These changes will obvious require a considerable source of new funding. The staff will need to increase by 3-fold. The money will come from fees assessed to investment firms.



- A new division should be created that focuses only on investigations of politicians, who use their power to influence the success of publicly traded corporations for which they are shareholders. A recent example of such an arrangement is that between House Majority Leader, Nancy Pelosi, D-CA and T. Boone Pickens. Upon pushing his wind power plan throughout Washington, Mr. Pelosi was somehow able to purchase \$100,000 of Mr. Picken's natural gas IPO company CLNE. This is just one of many episodes of clear conflict of interest. In my opinion, this goes well beyond insider trading.
- The arbitration process needs to be revised. The SEC needs to work with the NASD and each exchange to ensure that the process is fair. I am prepared to go into detail regarding the problems and solutions for arbitration at a later date.
- The class-action securities litigation process is nothing short of a joke. It has been designed only to favor the attorneys. Although I have been able to participate in numerous class-action awards, I have not bothered to do so because the amount of time needed to fill out the paperwork and confirm the dates of purchase etc. is nowhere near worth the amount of money I would receive.

"The mission of the U.S. Securities and Exchange Commission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation."

It is clear that the SEC has continued to fail at its mission for decades. It is time for the SEC to be revamped. Americans have been exploited and defrauded for too long. Let's be honest. The SEC has become a complete joke. And I for one will not tolerate it anymore. And I know I speak for all taxpayers. Together, we fund the SEC. We fund your paychecks. You are public servants to taxpayers, not the crooks you protect. This is not a message to the staff so much as it is to the executives of the SEC. I have always had very favorable encounters with every staff member from the SEC, from the receptionists to the attorneys. But their efforts are limited by the decision-makers.