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OFF THE CHARTS

The Old G.M. Is Dead, but Its Shares Live On

By FLOYD NORRIS

A FUNNY thing happened to its stock when General Motors went bankrupt. The shares did not go directly to zero, even though it appeared clear that the old shares were worthless. The new General Motors, owned by the government and a union health fund, may or may not prosper, but the old shareholders will lose out either way.

Market regulators were appalled. “They asked me whether Grandma Jones was being stupid” and buying the stock because she did not understand what was happening, said R. Cromwell Coulson, the chief executive of Pink OTC Markets, the market where dead stocks go to trade.

The regulators promptly forced a change in name and ticker symbol, hoping that would clear up the confusion. The old company’s new name is Motors Liquidation Company, with a ticker symbol of MTLQQ. It trades in Mr. Coulson’s market.

But it did not work. The shares still trade for about 60 cents each, giving Motors Liquidation a market capitalization of about $370 million. Not bad for a worthless piece of paper.

There has been absurd trading in bankrupt shares before, but it appeared to Mr. Coulson that this trading was going on longer than in past deals. Now he says he thinks he knows why. A new rule of the Securities and Exchange Commission, which took effect in July, has made it virtually impossible for anyone to sell Motors Liquidation shares short, and is forcing those who had short positions to close them out.

That is good news for shareholders, if not for believers in efficient markets. “I think more Grandma Joneses are getting a chance to sell G.M. at a higher price," Mr. Coulson said. "The structure of the market is, if you can't borrow it, you can't sell it short."

In a short sale, a traders normally sells borrowed shares and then pay them back with shares purchased later, at what they hope will be a lower price.

As can be seen from the accompanying graphic, the outstanding short position in Motors Liquidation stock has been steadily falling since the company went bankrupt. Contrast that to another prominent bankruptcy a few years ago, of the old Delta Airlines. It is clear that some people were able to sell the Delta shares short during the bankruptcy, and that there was a flood of short-selling shortly before the shares were formally canceled.

Under former rules of long standing, traders were supposed to sell a stock short only if the shares could be borrowed, but there were exceptions, including one for market makers. Under the new rule — adopted because of complaints about so-called naked short-selling, in which there was no borrowing — it is almost impossible to do that legally.

Moreover, the number of shares available to borrow declines when a company goes into bankruptcy. Institutional investors, who are usually willing to lend out shares, sell their stake and must recall shares they have lent. Fewer shares are held in margin accounts, another source of shares for lending.

If Mr. Coulson is right, then people with short positions are gradually being forced to buy the shares from real shareholders. Other short-sellers cannot get into the game.

That process may also be good news for the government. Under tax law, no tax is due on short-sale profits until the shares have been repurchased. So if the position can be kept open indefinitely, there is no tax to be paid, even though the profits can be withdrawn based on the minimal value of the shares. Short-sellers who are forced to cover will also have to pay taxes.

Floyd Norris comments on finance and economics in his blog at norris.blogs.nytimes.com.