

September 14, 2006

Security and Exchange Commission
100 F Street NE
Washington, DC 20549

Reference to: Amendments to REG SHO Release No.: 34-54154, File No.: S7-12-06

Ladies and Gentlemen,

Thank you for the opportunity to comment on Regulation SHO, specifically the potential repeal of the Grandfather Clause. I believe that I am a shareholder of Novastar Financial, Inc (NFI), a company traded on the New York Stock Exchange (NYSE). I use the term "believe" because I do not know, for sure, if my IRA account contains actual stock in the company. Recent information releases by the SEC, as requested by a Freedom of Information Act request, showed that approximately 40% of a days trading volume failed to clear. Thus, I have no way of actually knowing if I hold actual stock, or if my IRA account holds counterfeit, phantom stock (in the form of an IOU). That is why I am interested in the outcome of Regulation SHO.

Section 9 of the 1934 Securities Exchange Act, makes it unlawful to effect any securities transaction which does not involve a change in beneficial ownership. Section 17A, links the clearance and settlement of the traded securities transaction with the transfer of ownership. Thus, I paid real money for shares in NFI that may not exist. I paid real money for potentially a service that may not have been performed. The transaction statement was sent by US Mail. So let me make sure I understand this completely.

You – the SEC, who are mandated with protection of investors are possibly overlooking the following:

1. The potential creation and transfer of counterfeit stock (a set of federal crimes – including counterfeiting stock, which is the same as counterfeiting US Currency, and fraud),
2. The potential sanctioning of charging my IRA for brokerage services that may not have been performed (a federal crime – fraud),
3. The potential use of the US Mail to report the transaction of potentially counterfeit or non existent stock being transferred to my IRA in return for payment from my IRA in actual US Currency – another federal crime, mail fraud,
4. The use of electronic transmission equipment to effect a potentially bogus trade, another federal crime – wire fraud.

These federal crimes are in addition to, over and above the SEC regulations cited above. I personally do not understand, any of the following:

1. How the ownership of potentially counterfeit stock benefits me within my IRA account.
2. How the payment of US Currency for stock brokerage services that may not have been performed benefits me.
3. How the use of the US Mail and other telecommunication services to initiate and report on the transaction benefits me.

It certainly appears that there is a high probability that I may have paid good money for stock that does not exist, and for services to buy the stock that does not exist. In addition, this may be the perfect crime, in that I can not take physical possession of the stock certificates, I may never know if I hold actual stock or not. In order to determine this, and stay within the IRS rules and regulations, I would have to open a special bank trust account to take possession of these securities, that may not exist for which I have paid for. Why must I go to the additional expense to ensure that I receive what I paid for? This certainly does not seem fair.

Even though, I have received dividends, this is not an accurate indicator of actual ownership of property rights. If there exists more than the authorized number of Novastar Financial shares in the market place, then my property rights are being diluted. Thus, I own less than what has been stated and less than I actually paid for. This would be pure out and out fraud.

This coupled with the trading of options on the shares of the company - Novastar Financial, Inc, where by the options market maker is granted an exception to the rule, letting the market maker hedge their put positions on the market with failed to deliver stock transactions, adds gasoline to the fire of non delivery – or amplifies the creation of counterfeit stock.

When I purchase any other item, I at least get the opportunity to see actual delivery of property and/or services – buying a car, house, bag of chocolate chip cookies. When buying shares of a company, I should at least enjoy the same level of confidence that what I am buying actually exists or has been performed.

In any other business enterprise, non-delivery of product, or fraudulent production of a product would send the seller to jail. Please explain your placing my retirement funds at risk.

Therefore the Grandfather clause in REG SHO is not in the public interest and is both contrary to the public interest, and against both state and federal laws.

Respectfully submitted,

/s/

Gordon W. Bader