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Are Markets being Manipulated by "Rogue Traders"?

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There's New Evidence to Suggest that Crime In The Financial Markets is Rife

New York, New York: Everyone has heard of the Wikipedia but not everyone knows about the *Investopedia*, a Forbes website, that monitors finance for market players. One of the issues it is concerned about is market manipulation, actions by rogue and not so rogue players who, working alone or together, unduly influence the way our supposed "free" markets function.

It is a fascinating source of information for the uninitiated who hear the daily reports on the ups and downs of the Dow and believe that somehow it is all part of the natural order of the universe.

It isn't

Thanks to an even more informative web site, Gamingthemarket.com, we learn that in fact markets are subject to, prone to, and characterized by all sorts of manipulative practices. Here's one you may not have heard of.

"Ghosting: *An illegal practice whereby two or more market makers collectively attempt to influence and change the price of a stock. Ghosting is used by corrupt companies to affect stock prices so they can profit from the price movement.*

This practice is illegal because market makers are required by law to act in competition with each other. It is known as "ghosting" because, like a spectral image or a ghost, this collusion among market makers is difficult to detect. In developed markets, the consequences of ghosting can be severe." -Investopedia

It looks like we have gone from the age of the trustbuster to the era of the ghost buster as fiction once again turns into "faction."

Last week, the price of oil mysteriously shot up. There were reports of yet another "rogue" trader. The New York Times later reported:

"Reacting to recent swings in oil prices, federal regulators said they were considering limits on "speculative" traders in markets for oil and other energy products." Of course, the big banks and Wall Street firms are expected to zealously oppose more oversight.

Some things don't change. Anyone remember Nicholas Leeson, a one man engine of speculation who lost over a billion dollars and brought down his own bank before going to jail? He later gloated on his website; "How could one trader bring down the banking empire that had funded the Napoleonic Wars?"

On July 4th, Bloomberg News reported:

"Sergey Aleynikov, an ex-Goldman Sachs computer programmer, was arrested July 3 after arriving at Liberty International Airport in Newark, New Jersey, U.S. officials said. Aleynikov, 39, who has dual American and Russian citizenship, is charged in a criminal complaint with stealing the trading software. At a court appearance July 4 in Manhattan, Assistant U.S. Attorney Joseph Facciponti told a federal judge that Aleynikov's alleged theft poses a risk to U.S. markets. Aleynikov transferred the code, which is worth millions of dollars, to a computer server in Germany, and others may have had access to it, Facciponti said, adding that New York-based Goldman Sachs may be harmed if the software is disseminated."

The next sentence is particularly eye-opening: **"The bank has raised the possibility that there is a danger that somebody who knew how to use this program could use it to manipulate markets in unfair ways,"** Facciponti said."

J.S. Kim who runs an independent investment research and wealth consultancy firm commented on the financial site, Seeking Alpha:

"It's curious to note that Goldman Sachs has admitted that it has developed trading software that could be used to, in their own words, "manipulate markets in unfair ways", yet nobody in the mainstream media has questioned whether Goldman Sachs was / and is using its proprietary trading platform to manipulate markets in unfair ways. Only extremely naive investors with zero understanding of how global stock markets operate would deny that there has been continual and excessive intervention into US stock markets to prop them up over the past several months."

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I spoke with Christian Angelich, the founder or Gaming the Market.com, a former airline pilot turned trader, who told me that in recent years efforts to manipulate markets have become pervasive and, yet, are mostly illegal.

He too cited Goldman when I asked how it often works.

Without prodding, he came up with one possible scenario involving a firm like Goldman Sachs that had 00 millions of shares of Intel it wanted to offload. So they issue a report predicting it will sell for $50 a share. As a major player at the New York exchange where they do l out of ever ten shares, and have become even more powerful now that competitors like Bear, Lehman and others are out of business, their recommendations are given lots of weight even though in this case they really want to just dump the shares.

“None of this is new,” he told me, “its been going on for years. Even the founding Fathers warned about it, but is more egregious today in part because of all the technology these firms have.” He says it is illegal and has been winked at, citing one example: former Senator Phil Gramm attaching a plan to kill the Glass Steagall act as an amendment to a bill that then sailed through the Congress while his wife was on the Commodity Futures Trading Commission.”

“We will only have a real bottom,” he believes’ when the masses are out in the streets like they are in parts of Europe. For change, pressure from below is needed.”

Sometimes unexpected events can take over markets too, as Michael Jackson’s untimely demise’s meteoric impact on the music market shows. His sales went from nowhere to everywhere confirming one jaded pundit’s cynical comment that “he was more valuable dead than alive.”

In making a new film on the financial crisis as a crime story, I spoke with Moe Saceriby, a former lawyer and VP of Standard and Poors who went on to become a UN Ambassador. I knew him as a credible analyst of current affairs, an experienced professional. We spoke on Wall Street.

He told me:

‘I think we had a transition from what truly was a free-market system to something now that is out of control and probably what I would define as a predatory system where we are not so much dealing anymore about the notion of fair prices, and the notion of markets that — that work transparently an open late but in fact frequently markets that are manipulated for the end of maybe a few out there — a few investors, mega-investors. It’s even — even that’s very difficult to tell. “

This was new to me—the whole system being described as predatory which smacks of criminal.

He went on:

“And these market movements may not be necessarily reflective of the underlying value of that real asset whether it be a commodity or whether it be in equity. What I mean by that is frequently you see prices wildly fluctuating. As an example: how could oil be at $147 in July of 2008 and all of a sudden fall to below $40 a barrel at the end of that same year? We all knew that in fact the whole economic system was in trouble over a year ago. But the price of oil kept rising sharply. The price of foods kept rising sharply.

Question: “Manipulated?”

Answer: “I think it was manipulated. There is a lot of debate whether it’s about speculation or manipulation but there is an old expression among traders which is ‘the trend is your friend.’ What that means is that in fact a few people can use significant resources, financial resources, freely as a weapon.”

Umm, weapons on Wall Street? Already credit default swaps have been compared to financial hydrogen bombs as financial terms merge with military language. Does anyone doubt that these Wall Street manipulations have become form of warfare and that, until now, the wrong side has been ahead.

Surely, all this demands a serious investigation and serious regulation. Will it happen?

Mediachannel.org's News Dissector Danny Schechter is producing a film on "the Crime of Our Time" as a follow-up to his book PLUNDER; Investigating Our Economic Calamity (Cosimo Book, Amazon.com) Comments to dissector@mediachannel.org

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