

Is the Stock Market Rigged?

By [Dr. Paul Craig Roberts](#) and [Dave Kranzler](#)

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Region: [USA](#)

Theme: [Global Economy](#)

On February 6, I ([PCR](#)) asked if the Plunge Protection Team had stepped in and prevented a stock market correction by purchasing equity index futures. Sure enough, the daily exchange volume chart shows an increase in futures activity on February 2 with sharp increases on Feb. 5th and 6th. Those are the days when the stock market averages were experiencing large point drops. So, ask yourself, would you purchase equity futures while experiencing cumulative stock market drops? One can understand shorting a dropping market, but not buying futures.

Unless this is what happened. Seeing the beginning of a correction, the Plunge Protection Team placed a futures bid just below the existing price. Traders saw the bid, recognized that the government was intervening to support the market, and the bid was front-run with the hedge fund algorithms automatically picking up the action.

Who but the Federal Reserve with its unlimited ability to create money would take the risk of buying futures in the face of a falling market. Moreover, such an infusion of money into the market does not show up in the money supply figures.

The futures purchases prevented margin calls and stop/loss orders in a heavily leveraged equity market that would have collapsed the market.

What are the pros and cons of this kind of intervention (which might have occurred also in May 2010 and August 2015)? By stopping a correction, the intervention prevented a pension fund collapse, both private and state. However, by propping up over-valued equities that the Federal Reserve's quantitative easing created, the intervention rewarded over-leveraged speculative risk-taking and prevented price discovery. We still have an equity market whose values rest on record margin debt, stock buy-backs, and prices pumped up by money-printing. The problems waiting to come home continue to build.

The question is: can intervention prop-up over-valued, problem-ridden markets forever?

After today's drop, we will see what happens tomorrow.

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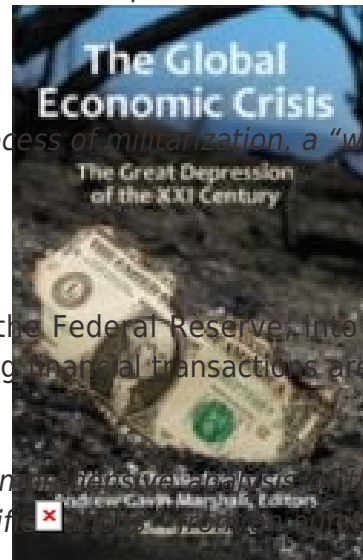
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About the author:

Paul Craig Roberts, former Assistant Secretary of the

US Treasury and Associate Editor of the Wall Street Journal, has held numerous university appointments. He is a frequent contributor to Global Research. Dr. Roberts can be reached at <http://paulcraigroberts.org>

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