Is the U.S. Government Buying Stocks?

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As I pointed out in December 2008, Nouriel Roubini wrote the month before that the government might buy U.S. stocks:

> The Fed (or Treasury) could even go as far as directly intervening in the stock market via direct purchases of equities as a way to boost falling equity prices. Some of such policy actions seem extreme but they were in the playbook that Governor Bernanke described in his 2002 speech on how to avoid deflation.

Given that Roubini was previously a senior adviser to Tim Geithner, he probably knows what he's talking about.

Now, Charles Biderman, CEO of TrimTabs, argues that the government may, in fact, have been buying stocks to prop up the stock market. Given that 25% of the top 50 hedge funds in the world use TrimTabs' research for market timing, it is a credible source.

Specifically, Biderman writes:

> As far as we know, it is not illegal for the Federal Reserve or the U.S. Treasury to buy S&P 500 futures. Moreover, several officials have suggested the government should support stock prices.
>
> For example, former Fed board member Robert Heller opined in the Wall Street Journal in 1989, "Instead of flooding the entire economy with liquidity, and thereby increasing the danger of inflation, the Fed could support thestock market directly by buying market averages in the futures market, thereby stabilizing the market as a whole."
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> In a Financial Times article in 2002, an unidentified Fed official was quoted as acknowledging that policymakers had considered buying U.S. equitiesdirectly, not just futures. The official mentioned that the Fed could "theoretically buy anything to pump money into the system."
>
> In an article in the Daily Telegraph in 2006, former Clinton administration official George Stephanopoulos mentioned the existence of "an informal agreement among the major banks to come in and start to buy stock if there appears to be a problem."

Mike Whitney – in commenting on Biderman's essay – adds another juicy quote:

> Consider the comments of former Clinton advisor George Stephanopoulos who verified the existence of the PPT in an appearance on Good Morning America

> on Sept 17, 2000. He said:
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> "What I wanted to talk about for a few minutes is the various efforts that are going on in public and behind the scenes by the Fed and other government officials to guard against a free-fall in the markets . . . perhaps the most important the Fed in 1989 created what is called the Plunge Protection Team, which is the Federal Reserve, big major banks, representatives of the New York Stock Exchange and the other exchanges and they have been meeting informally so far, and they have a kind of an informal agreement among major banks to come in and start to buy stock if there appears to be a problem. They have in the past acted more formally . . . I don't know if you remember but in 1998, there was a crisis called the Long term Capital Crisis. It was a major currency trader and there was a global currency crisis. And they, with the guidance of the Fed, all of the banks got together when it started to collapse and propped up the currency markets. And, they have plans in place to consider that if the markets start to fall."

Biderman continues:

> This type of intervention could explain some of the unusual market action in recent months, with stock prices grinding higher on low volume even as companies sold huge amounts of new shares and retail investors stayed on the sidelines. For example, Tyler Durden of ZeroHedge has pointed out that virtually all of the market's upside since mid-September has come from after-hours S&P 500 futures activity.
>
> If we were involved in a scheme to manipulate the stock market, we would want to keep it in place until after the "wealth effect" put a floor under the economy of, say, three quarters of positive GDP growth. Assuming the economy were performing better, then ending the support for stock prices would be justified because a stock market decline would not be so painful.

Whitney summarizes another of Biderman's arguments:

> "We cannot identify the source of the new money that pushed stock prices up so far so fast. For the most part, the money did not from the traditional players that provided money in the past."
>
> Huh? So, this vast infusion of liquidity–which helped the banks to avoid painful deleveraging–did not come from the usual suspects?
> That's right. According to Biderman, the money did not come from (a) companies ("which were a huge net seller") (b) retail investor funds, (c) retail investors, (d) foreign investors …, (e) pension funds [or (f) hedge funds].

Has it happened? Has the government or it's primary dealers really purchased stocks?

I don't know, but Bernanke's refusal to open up the Fed's books – and the lack of accountability and transparent accounting standards for the big banks – isn't helping to dispel suspicions.

And if the stock market tanks again in 2010, it might add circumstantial evidence to a short-term attempt to prop up the market by the government.

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