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Subject: Shenanigan/Scams on Wall Street (Especially HFT)

Gary Gensler (Chairman of CFTC) &
Mary Shapiro (Chairwoman of SEC),

I'm addressing this letter to both the CFTC and the SEC because I believe that both regulatory agencies have a responsibility in seeing that investors, particularly individual investors, can enter orders and have their orders executed in a fair and transparent market. Yesterday's actions in the markets indicate that we have a real problem.

Yesterday's (5/6/10) sudden 700 point drop in the DJIA indicates that the problem is with the trading programs being run by the large traders on Wall Street. The problem is most likely caused by the High Frequency Trading (HFT) programs being allowed to manipulate the markets, as indicated in this article by J. S. Kim today (5/7/10).
http://www.theundergroundinvestor.com/2010/05/the-near-1000-point-slide-of-the-djia-compells-further-investigation-of-the-wall-street-casino-scam/
[The article is reproduced below for ease of reference.]

This is not the first time that the HFT programs have been identified as the source of unfair trading on Wall Street. Both the CFTC and the SEC are aware of the problems.

IT IS TIME FOR THE SEC AND THE CFTC TO PUT A STOP TO MANIPULATION ON WALL STREET BY HFT.

Thanks for listening.

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The Near 1,000 Point Slide of the DJIA Compels Further Investigation of the Wall Street Casino Scam

May 7th, 2010

Yesterday's slide in the US stock markets provided further proof that the world's financial markets are nothing more than a rigged casino where the house (Wall Street) holds by far the better odds in every game (currency markets, stock markets, derivative markets, commodity markets) it offers the mark (the retail investor). How else could the US DJIA lose 700 points in a 10-minute span and a number of blue chip stocks lose 25%, or 30% in a matter of minutes as well? The answer? Wall Street's use of predatory algorithmic High Frequency Trading (HFT) programs that are designed to trigger cascade-like buying and selling. To believe that, as an individual investor, you have a snowball's chance in hell of beating these Wall Street trading programs that front run your trades or block your trade executions faster than you can blink your eye is tantamount to believing that skill is involved in winning when you shimmy up to the slot machine stool at the Bellagio in Vegas.

Predatory algorithmic HFT programs aren't called "predatory" without good reason. Not that yesterday's sell-off wasn't partially the result of fear injected into a Fed Reserve inflated stock market bubble, because it was. But Wall Street deployed HFT programs had a lot to do with the cascading nature of the decline in yesterday's trading. Continuing our casino analogy, HFT programs act in the same capacity as the thugs employed by casinos that take you to the back room to rain down their "thuggery" upon you if you start winning too much. HFT programs are designed to block the retail investor from making successful trades against the trades of the house (Wall Street) and often prevent the retail investor from obtaining fair prices in the execution of trades in numerous financial markets.

Consider the following example. Stock A's bid is $10.10 and the ask is $10.13. An investor places an order to buy at $10.13. Instead of his order being filled and executed as it would if human traders were executing the trade, HFT programs often immediately step up the ask price to $10.14 and screw both parties in the trade. Depending on the orders that HFT programs "see", sometimes the HFT will see an order at $10.13, and step up the price to $10.18 so the bids follow higher and the bid price gets reset at $10.13 almost immediately. Or, if the bid price does not follow higher, then the bid-ask spread becomes grotesquely distorted from $0.03 to $0.08 for no other reason than HFT programs are blocking liquidity. Should the human trader withdraw his order to buy at $10.13, then often the bid-ask spread almost immediately returns to $0.03 and the ask will subsequently fall from $10.18 back to $10.13. Should he place the order again seconds later, however, the bid-ask spread will often immediately increase again with the bid price increasing to a point higher than $10.13 again.

The HFT programs execute the shame shenanigans in the options markets depending on what side of the market they are manipulating. I have many times been forced to take a lower profit on options trades because of HFT programs. For example, if I placed an order to sell on option contracts at \$2.50 when the bid is at \$2.50 and the ask is \$2.60, instead of my order filling, the bid often immediately falls to \$2.40 and the ask becomes \$2.50, blocking my order from filling. HFT programs run amok in options markets as well. This is Skynet from Terminator rigging markets, destroying liquidity and unfairly rigging prices of all possible financial instruments that trade in every conceivable market, all with the blessings of the SEC.

Wall Street has been running these types of scams ever since advances in technology have enabled them to develop algorithmic programs to manipulate markets. In fact, on my company's website, I have stated the following message for a long time now: *"Today, when stock markets rise in the face of horrid economic fundamentals, fundamental and technical analysis are inadequate when making critical decisions about your financial future... If one expects to be profitable in today's investment world, one MUST realize that ALL MARKETS ARE RIGGED, including gold, silver, currency and stock markets... Without understanding the fraud and rigging games of the financial oligarchs, it is impossible to accurately predict long-term trends. It is a near certainty that future shocks to the economic system will catch the vast majority of all investors unprepared and we expect great shocks to hit the global economy at some point in 2010."*

The only difference is that when I started pushing this message a decade ago, people laughed off my proclamations and accused me of being enamored with conspiracy theories. Today, more and more people finally are awakening to the reality that such a message is not a conspiracy but a fact.

So this is how the Wall Street Casino Scam operates.

The ratings agencies like Moodys and Standard and Poors are the pretty cocktail waitresses that lure the mark (the retail investor) into the Casino (stock markets) with free alcoholic drinks (abominably horrible and deceitful credit ratings of financial instruments) to instill the mark with the false sense of confidence necessary to induce gambling in the rigged Casino. The regulators like the CFTC and the SEC are the pit bosses that oversee the floormen (Wall Street firm CEOs) that oversee the table games dealers (the firm's traders) and ensure the games (stock markets, currency markets, commodity markets) you are allowed to play possess a feature (HFT trading programs) that ensures that the odds will always enormously be in favor of the house. The pit boss oversees all floor dealers and conspire with the regulators (the cocktail waitresses) to give gamblers (the investor) a sense that all dealings are legitimate even though the odds of every table game (currency markets, commodity markets, stock markets) are insanely rigged in favor of the house (Wall Street firms). If we consider the table game of blackjack, in a real casino, should you receive a good hand, the dealer will pay out your bet. In the case of Wall Street, due to HFT programs, in many instances, should an investor receive a favorable hand (i.e., a favorable move in the stock market) in the game he or she is playing, HFT programs move in to prevent the bet from paying out in full or paying out at all (an investor's sell order never executes at the price at which the market has informed the investor that he or she can cash out).

In essence, financial markets are rigged exactly like casinos except for one difference. The predatory algorithms executed by HFT programs ensure the winnings of the house to a much greater extent than any Casino table game is able to accomplish. It this sense, Wall Street is rigged to a greater extent than even casinos. In the instances when you win, they deploy HFT trading programs that prevent the bet from paying out full value so that the house (Wall Street firms) can step in and earn profits from a trade it spots AFTER an order has already been placed. Or in the mirror example, HFT programs allow the house (Wall Street firms) to step in front of trades they "see" and front run them for their own profits, again screwing the retail investor out of a lower price in a buy transaction. In these cases, which must happen by the thousands every day, the HFT programs employed by Wall Street screw both the buyer and seller in the transaction as it always attempts to widen the losses or lessen the gains of both parties involved. In some instances, frustrated traders leave the game tables so liquidity dries up which leads to the establishment of even more grossly distorted and unfair bid and ask prices. Despite this practice being commonplace, the pit bosses of the giant rigged Wall Street casino, men like Goldman Sachs's Lloyd Blankfein, want us to believe that their enormous profits are derived because of their upstanding integrity and above-average intelligence of his firm's employees.

Next on the list of financial weapons of mass destruction? The $600 trillion (notional value) of the derivatives market. Oh, what joy we'll experience when the banksters are eventually forced to unwind a fraction of this market and various parties will actually be forced to make good on these contracts when the financial instruments insured by them start heading south (or the true value of them are finally recognized, whichever comes first). It's no wonder that the price of gold has diverged from the behavior of the US dollar and US stock markets on multiple days for the last several weeks. The next significant dip in gold/silver price that occurs may be the last best buying opportunity in "real" money for years.

About the author: JS Kim is the Chief Investment Strategist and Managing Director of SmartKnowledgeU, LLC, a fiercely independent wealth consultancy company that guides investors in the best ways to build wealth through the progression of this global financial crisis.