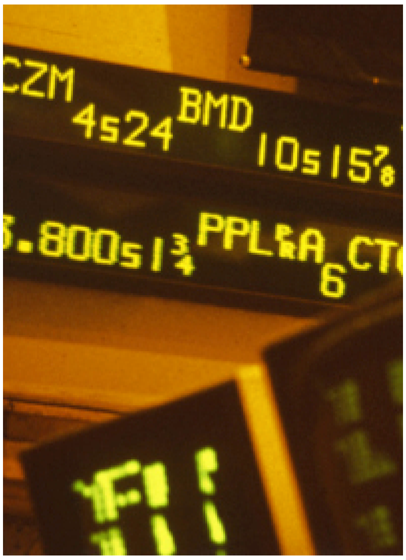
Stock Rally Owing to Plunge Protection Team Conspiracy?



The 60 percent gain in stocks since March was largely caused by secret government purchases of stock-index futures, the CEO of TrimTabs claims.

The Plunge Protection Team (PPT), otherwise known as the Working Group on Financial Markets, has been the target of conspiracy theorists ever since an article in the *Washington Post* in 1997 first shed light on the operation. The Working Group was created by Executive Order following Black Monday's market crash on October 19, 1987, when the stock market declined more than 20 percent in a single session. Its purpose was to give recommendations for legislative and private sector solutions for "enhancing the integrity, efficiency, orderliness, and competitiveness of financial markets and maintaining investor confidence."

The Group is made up of the Secretary of the Treasury (Timothy Geithner), the chairman of the Federal Reserve Board (Ben Bernanke), the chairwoman of the Securities and Exchange Commission (Elizabeth Murphy), and the chairman of the Commodity Futures Trading Commission (Gary Gensler). Claims are made that this committee consists of an "orchestrated mechanism that attempts to manipulate U.S. stock markets in the event of a market crash by using government funds to buy stocks, or other instruments such as stock index futures — acts which are forbidden by law."

Some of the attacks are dated and histrionic while others deny the existence of PPT altogether.

The recent massive rise in the stock market since March has raised serious issues by some highly credible observers.

Charles Biderman, founder and CEO of TrimTabs, a highly respected research firm that tracks money flows into and out of the markets, said on Tuesday, "We do not know the source of money that pushed [the market capitalization] up $6 trillion since Mid-March. We cannot identify the source of the new money that pushed stock prices up so far so fast. The money did not come from the traditional players:

> Corporate America has been a huge net seller [of stocks].
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> Retail investor funds [stock mutual funds] have received just $17 billion since the start of April.
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> [Individual] investor sentiment has been mostly neutral since the rally began. We have no evidence [that] retail investors were piling into individual stocks.
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> Foreign investors have provided some buying power … but we suspect [these] purchases slowed in November and December.

> Hedge funds … posted an outflow of $12 billion from April through November. We doubt their buying power.
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> Pension funds have not moved [substantially] into U.S. equities since the rally began.

Where did the money come from to push up stock prices? Biderman says, "We do not know where all the money has come from. What we do know is that the U.S. government has spent hundreds of billions of dollars to support the auto industry, the housing market, and the banks and brokers. Why not support the stock market as well?"

Robert Heller, a former board member of the Federal Reserve, said in an op-ed article in the *Wall Street Journal*, "Instead of flooding the entire economy with liquidity, and thereby increasing the danger of inflation, the Fed could support the stock market directly by buying market averages in the futures market, thereby stabilizing the market as a whole."

Such support for stocks during a market crisis was confirmed by George Stephanopoulos, a former Clinton administration officer, in an article in the *Daily Telegraph*, where he referred to "an informal agreement among the major banks to come in and start to buy stock if there appears to be a problem."

Biderman went on to say,

> One way to manipulate the stock market would be for the Fed or the Treasury to buy $20 billion, plus or minus, of S&P 500 stock futures each month for a year. Depending on margin levels, $20 billion per month would translate into at least $100 billion in [new] buying power. Given the hugely oversold market early in March, not only would a new $100 billion per month of buying power have stopped stock prices from plunging, but it would have encouraged huge amounts of sideline cash to flow into equities to absorb the $300 billion in newly printed shares that have been sold since the start of April.

Tyler Durden at ZeroHedge.com pointed out that "virtually all of the market's upside since mid-September has come from after-hours S&P 500 futures activity."

There are strong objections to calling such potential manipulation a conspiracy. As the writer at MarketWatch.com put it, "The Fed has never said it is buying equities or equity futures. Doing so would likely violate the Federal Reserve's investment policies, and could violate federal law if not disclosed properly."

> Aside from the legal issues, the PPT would have operational constraints. It's hard to believe that the Fed could keep such a conspiracy a secret for 20 years or more. An operation big enough to manipulate markets for months on end would be big enough to develop leaks.

But he points out that "Biderman's accusation of PPT market manipulation is another argument in favor of a complete public audit of the Fed's books."

The lack of transparency by the Fed and the PPT has driven support of just such an audit of the Fed so that a bill, supported by more than 300 members of the House of Representatives, just passed the House as part of the massive financial services reform act. According to John McManus, publisher of *The New American* magazine and president of the John Birch Society:

> Should the measure gain full House and Senate approval and a presidential signature (surely steep hills to climb!), the Fed will have to bare details about its emergency lending programs, bailouts of financial institutions, dealings with like institutions in foreign capitals, and the process it employs in setting interest rates.

Such an audit will also clear up any confusion about the activities of the Plunge Protection Team as well.