'Invisible' hand steers Wall Street recovery

by William Engdahl

On Friday Oct. 13, the Dow Jones Index of 30 industrial companies plunged in the second worst one-day fall in its history, dropping 190 points in the last hour of trading, a fall of 6.9%, four days after hitting a record high. All eyes of the world were on New York as trading began on Monday Oct. 16. I thought it would be interesting to show readers the actual details of modern American "free market" mechanisms as they worked during this latest crisis.

Over the weekend following the latest Black Friday, there were crisis meetings involving the White House, Treasury Secretary Nicholas Brady, the Federal Reserve, the New York Stock Exchange, and the Chicago commodities futures markets—Chicago Board of Trade and Chicago Mercantile Exchanges. While President Bush was told to "project an image" of calm and control to the public, privately the officials readied their strategy.

Then, at 9:00 a.m. Wall Street's New York Stock Exchange began trading. The Dow immediately plunged a further 65-70 points. Then strange events began to occur. Wire service reports to market traders worldwide were momentarily interrupted with the message that Citicorp's Quotron computer price quotation system had broken down. Most feared the worst. After 40 minutes of trading, the White House issued a terse statement, "We have full confidence in Alan Greenspan." Then the so-called miracle on Wall Street began. But it began in Chicago's stock index futures markets which open one hour after Wall Street. A slow but growing flood of buy orders began to push the futures price for December delivery upward.

Market manipulation

A favorite form of manipulation in recent years has been for the huge Wall Street brokerages such as Morgan Stanley, Goldman Sachs, or Merrill Lynch to make tiny profits into large ones by making "arbitrage" or profits on small per share divergences between the price in Chicago and the actual stock in New York. Computer programs execute split-second "buy" or "sell" programs once the difference between the New York stock index and its "futures" price in Chicago go beyond a pre-set amount. If a broker is large enough, his hour by hour trades can actually move the entire index of stock prices for some minutes of that trading day, and he can take his profits before anyone realizes, leaving the stock market price to fall back by day's end. This game of Chicago-New York arbitration is called "program trading."

Over the weekend, the Fed and the relevant officials told the large mutual fund managers such as the Fidelity Investment Fund, which pools billions from small investors into central stock funds, that they must ignore the huge number of sell orders they had collected over the weekend. The Fed promised, via select banks, to give the huge mutual funds what monies were needed to satisfy their customers. The Wall Street professional stock wholesale traders were also told by the most prestigous New York bank J.P. Morgan, that they were entitled to up to a $1 billion credit line Oct. 16, no questions asked, to buy any "sell" orders placed. This insured a virtual selling freeze for the Wall Street stocks which comprise the Dow Industrials Index.

The wider public was told nothing of these free market manipulations by the modern-day version of Adam Smith's modern "invisible hand."

With New York Dow Industrial stocks under control, action moved to the Chicago futures pits. By the morning of Oct. 16, futures traders had been told by the exchange authorities in Chicago that they were not to execute any sell orders but to only buy on that day. After months of FBI *Nacht und Nebel* raids for alleged "insider-trading" abuses, the Chicago traders aparently decided to comply.

Miraculous reversal

The Fed then used the same network of insider banks such as J.P. Morgan and First Chicago to pump funds into the futures markets. This began, under the rigged conditions. The little-known Major Market Index, a selection of only 20 of the 30 companies which comprise the Dow Industrial Index, began to rise inexplicably. These futures, unlike the actual stocks, can be bought on only a tiny percentage of their actual value, a margin of 10%. So, relatively small funds on Oct. 16 in Chicago activated huge movements in the futures MMI and other indices such as Standard & Poor's 100. This triggered automatic buy programs in New York for the stocks of the 30 companies in the Dow Industrials.

Thus, suddenly, while the world held its breath, as if by magic, the Dow began to go from minus 65 points to *plus* 14 by the second hour of trading. With some hesitation, it continued upward, taking about 15 minutes lag between each new "buy" plateau in Chicago to trigger "buy" in New York. By day's end the Dow Industrials had recovered 88 points.

"So much for the free market," commented one angry U.S. stock market analyst. According to this person, Greenspan and company rigged a similar "recovery" on Oct. 20, 1987, the day after the Dow fell 508 points. That time they spent some $50 million to trigger the Dow rally in New York. This "reverse leverage" is one reason it seemed the Fed pumped in only a tiny amount of funds on Oct. 16-17, some $2 billion to select banks each day. But as one participant noted, "This is desperation action which can buy time for a few days at best."