With the advent of the computer, the internet, advanced communications infrastructures, and internet trading, the world of investing has flattened. This flattening modulates manipulation in the markets. It is also changing the power structure in our investing world. Thomas L. Friedman defines the issue succinctly:

“If the prospect of this flattening – all of the pressures, dislocations, and opportunities accompanying it causes you unease about the future, you are neither alone nor wrong. Whenever civilization has gone through one of these disruptive, dislocating technological revolutions – like Gutenberg’s introduction of the printing press – the whole world has changed in profound ways. But there is something about the flattening of the world that is going to be qualitatively different from other such profound changes: the speed and breadth with which it is taking hold. The introduction of printing happened over a period of decades and for a long time affected only a relatively small part of the planet . . . . . This (current) flattening process is happening at warp speed and directly or indirectly touching a lot more people on the planet at once. The faster and broader this transition to a new era, the more likely is the potential for disruption, as opposed to an orderly transfer of power from the old winners to the new winners (emphasis added).”

Previous to the advent of the computer and computer based trading one usually needed to move to New York and purchase a seat on Wall Street to daily trade in the stock market. Retail investors merely “invested” in companies traded on stock markets via their local stock broker. Professional traders did the trading.

With the flattening of the stock market by internet trading, two types of retail American investor have emerged, the retail investor, and the retail day trader. The new retail day trader causes a flattening to the old system of the retail investor and professional trader on Wall Street. Everyone has the ability to trade and profit from trading, not just the professional on Wall Street. The power structure is changing and quickly moving from the old winners to new winners.

The majority of Americans are retail investors (401Ks, Retirement Plans, IRAs, Mutual Funds, etc.). They purchase stock based upon the value of the companies in which they invest and intend to hold the stock over longer time periods. If they are wise, they use dollar cost averaging to purchase investments, thereby negating price fluctuation risk in the stock market.

The new class of American investor, the retail day trader, has applied a new force to the stock markets in the United States as well as worldwide. This new force causes changes in markets and modulates manipulation of market prices via liquidity. Retail day traders, in mass number, apply a different force on the supply and demand, therefore influencing liquidity in a positive way since each are individuals. The retail day trader does not work in collusion with other retail day traders to influence supply and demand. Each works on his/her own initiative. This modulates price manipulation caused by flash trading, dark pools of liquidity and large share trades on the open market by large professional traders.

Previous to internet trading only the “professional” trader (either market maker or brokerage firm) could influence liquidity and price on a daily basis. The retail investor did so

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1 *The World is Flat, A Brief History of the 21st Century*, Thomas L Friedman, Farrar, Straus, & Giroux, New York, 2005, p. 46
moderately by purchasing or selling stock for longer term investment purposes, however, the day to day liquidity was controlled by the “professional” in Wall Street.

With the flattening of the trading world, day to day liquidity can now be influenced by the retail day trader, instead of being controlled by the professional. The power structure is changing and quickly from the old winners to the new winners.

If there are evils in the stock market it comes from lack of transparency and manipulation of liquidity (supply/demand). More trading by more traders working independently merely modulates the manipulation by applying a different force on liquidity.

Ethical, legal trading keeps balance in the markets. When a portion of traders are excluded, manipulation happens.

The SEC decision in 2001 to limit access to the daily markets by the small retail day trader ($25,000 minimum equity to day trade) again allows the large firms and professional traders to manipulate the markets as they did previous to the advent of internet trading (via flash trading, dark pools of liquidity and large share orders on the open market).

Of course the SEC could disallow flash trading or dark pools of liquidity. However, manipulation of the markets will still continue in other ways. Government cannot legislate morality since morality is personal. Those who would manipulate will simply devise new ways around the new rules.

The best way to control the manipulation is to allow another force to be placed on liquidity that modulates the manipulation. Independent trading by the small retail day trader provides a permanent solution to market manipulation by applying that different force to liquidity.

This new solution is not without danger. During the time of the free for all Day Trading, serious problems developed that prompted the 2001 SEC Day Trading Rule changes. Many were overextending margin at brokerage firms far beyond the means to repay. The SEC day trading rules controlled the out of control borrowing by those who could not afford to repay their debt. However, there was an unintended consequence. Small retail day traders were excluded from the markets and their modulating influence on manipulation died. The 2001 Day Trading Rules took a reasonable force on liquidity out of the markets and again allowed only the professional to influence liquidity.

We propose changing the Day Trading rules to allow the small retail trader to Day Trade with his or her cash with no more than $2000 minimum equity. This proposal “protects” the small retail day trader against overextending his or her margin while allowing the good that comes from the flattening of the markets via access by internet trading.