

## **Flash Crash + more (Cause and Solution)**

What happened on Thursday May 6, 2010 (Flash Crash) is further evidence that the Stock Market, once a decent place to invest your hard earned money and where businesses could expand and our economy benefit, is now infested with high-tech organized crime institutions.

The big hedge fund institutions manipulate the market and use any means NOT available to the public to do so, such as high speed trading and having 40:1 margin capability to gain profit - pure paper gains not tied to any true increase in value production.

These institutions are destructive to our economy. I can tell you with a high probability what happened on the day of the flash crash and it is not too difficult to figure out the source of it.

I believe that the Flash Crash was preplanned and was done intentionally by those having high-speed trading capabilities who could have set up **buy limits** at low levels and then brought the market down at high speed to create the free fall of the market. It is not difficult to find out who did the large scale buying and when that order was put in place.

Regulation is the key to bringing order and confidence into the market place. The following are some examples of good general regulatory policy.

- 1) **No NAKED short selling.** This should be illegal. If you do not have the stock, you should not be able to sell it. This is one of the biggest tools used by institutions to bring the financial institutions and the economy down. Germany did the right thing by making naked short selling illegal. And for the record please inform your anchors of CNBC and their guests and Fast Money: Germany did not make short selling illegal, they made **naked** short selling illegal - please get it right.
- 2) Bring back the **up-tick rule**.
- 3) Have the correct circuit breakers installed in all markets uniformly to **regulate high frequency trading**. High frequency trading does nothing good for the market place except creating the ability for a few to manipulate the market and create chaos in the market. High frequency trading does not provide liquidity in the market, as a matter of fact, it dries up liquidity by scaring the real investors out of the market.
- 4) Limit hedge fund institutions' margin capability – it should not be 40:1. This would limit uncontrolled and manipulative trading.
- 5) Create an FCC organization that cracks down on fraud and establishes fair and sound market practices.

## **Banks**

Banks must be regulated as following:

- 1) Bring back the Glass-Steagall Act. Banks need to stick to banking, not participate in derivatives and speculation. The banks borrow money from the

Federal government (our tax money) at almost zero interest rates, and instead of using it to make it available for people and businesses to expand; they use the money for trading and speculation of derivatives to make money for themselves. Let's look at the banks in Canada. They are regulated and doing very well and are not affected by other countries' economic downturn. They have done it the right way.

- 2) The banks need to be regulated in lending money for properties such that the buyer of the property has to have a minimum 20% down payment for the property, and have the income to pay the loan before the bank approves the loan. This will keep the bank in good standing. This is the rule used for the banks in Canada and they have good results.

### **Energy prices (oil)**

Oil prices need to be in check and not be manipulated by big hedge fund institutions.

I am amazed by the fact that every day at CNBC and other financial channels, they keep promoting investing in oil when the price of oil will affect all other commodities. When the price of the oil soured to an all time high of about \$150/barrel, it was not because of high industry demand. Rather, it was speculation by big institutions that used their high margin of 40:1 to buy oil and kept it in the big ships and then talking the price up. And at the same time, the Bush administrators were promoting ethanol (food for fuel) which caused the food prices to go high.

### **If we want to keep Oil prices in check, this is how we can do it:**

Whoever wants to trade high demand energy commodities such as Oil or Natural Gas has to use cash - not margin. There should be **NO margin** rule for buying oil stocks by hedge fund institutions. This would bring the oil prices down fast since the institutions' leverage is eliminated.

Last but not least, to bring order into this market place, the FCC should hire Jim Cramer as an advisor.

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