The Role of Cash Settlement in Market Manipulation
and in the Panic of 1987

( Author wishes to remain anonymous – 2007 )

I

We have been alarmed by the recent behavior of our financial markets. Our concern is not so much with market volatility but rather with market combustibility. It is not random wildness that troubles us but the markets susceptibility to specific stimuli which are controlling the short and intermediate pricing of equities, futures and options.

We are concerned that the regulators have allowed the development of a market mechanism that they neither understand nor can control. More, we contend that the US equity markets are now sullied by an extensive on-going manipulation of unprecedented proportion.

Our securities industry takes space travel and genetic engineering for granted yet continually succumbs to the rhetoric of “random walk” and “no one is bigger than the market.”

In the wake of the 1987 market break, regulators and scholars have been asking the “right” wrong questions. Leading us astray they raise the classic moot issues, like margin requirements and market limits, which evoke fervent debate simply because those elements, though debatably irrelevant, are easy to understand. Moreover, the brute-force actions of trembling margins and imposing 50 point limits are sure to have some noticeable impact.

Many of the academics/ rhetoricians consulted following the October ‘87 crash are or have been in the paid service of interested parties. They have massaged data to show that what we see is just illusion and that our markets are not being controlled.

At the root of the current confusion is an often ignored, little-understood feature of the new derivative instruments. It is called “cash settlement,” and it functions to undermine fair markets.

II

What is “cash settlement”? It is the feature of certain options and futures which specify that they be settled only in cash at (or sometimes before) maturity at the existing price of the underlying security.

"Cash settlement” instruments are synthetic devices. They have no other purpose than to transfer cash from one entity to another by manipulating an underlying index number from one moment to the next, one month to the next.

Nothing REAL is produced, created or even traded. On expiration, money is just transferred automatically into or out of accounts of those who have placed their bets. No more, no less.
While the mechanics of “cash settlement” index options and futures are simplicity itself (a bookkeeper’s dream), these insidious instruments impact the market with great complexity.

To begin with, disposal of these instruments exerts no buying or selling pressure on the market.

It is difficult to imagine any legitimate product on security where buying and selling in massive quantity doesn’t impact price. With “cash settlement” that is what we have. There is no balancing mechanism as there is with any normal product, commodity, stock, bond or standard option and future.

In normal markets, unwinding positions will stabilize rather than destabilize by precisely counteracting the initiating transactions and returning the market to external supply-demand equilibrium.

On a typical option expiration, those who exercise the usual 150,000 (plus or minus) in-the-money “cash settlement” index options do not dispose of the $5 billion worth of stocks which ostensibly underlies these options. NOTHING really underlies these options; only cash changes hands; the game is repeated the following month.

The buyer of a “cash settlement” index future is NOT buying an underlying basket of stocks for future delivery, no matter what the “efficient market” rhetoricians claim. The “cash settlement” future is mathematically different from every other future in that it is really a hybrid OPTION, not a future.

At expiration, the so-called index future affords the holder no ownership, but an OPTION to take or not to take delivery of the underlying stock basket. This fundamental aspect of “cash settlement”, and how it impacts the market, is little understood.

To illustrate, consider the holder of 10,000 standard futures contracts on silver at maturity. If this holder does not choose to own the metal, the equivalent of 50 million ounces must be sold into the open market. This order to sell, taken by itself, is likely to depress the market price for the metal. The seller has an incentive to sell as carefully as possible as the more the price is depressed, the less the proceeds will be. Such a seller is likely to begin the process of liquidation well before maturity; he has a disincentive to disrupt market price.

In contrast, the holder of 10,000 S&P futures owns contracts which settle for cash. Disposing of these contracts puts no downward pressure on the market whatever. They just turn to cash. Where the holder of these contracts chooses to take delivery of the underlying stock baskets, it may be done without market risk, as follows: At expiration, stock baskets are purchased “at the market.” Any higher cost which results from this buying pressure is exactly offset by the higher “cash settlement” proceeds from the expiring futures.

This “cash settlement” futures holder has no incentive to tread carefully on the market. Quite the contrary; there is an incentive to cause as much disruption as possible.

Consider the operator who is long the futures and short stock baskets against them. Knowing in advance that he and his associates will cover short stocks aggressively at predetermined moments (and thus drive the market upwards), they all buy “cash settlement” call options (and/or sell puts) in advance to profit from upward movement that they THEMSELVES will generate. Note that the simple act of covering short stocks at or near
expiration is all that is necessary to create the profit and close ALL positions. Various labels, including “front-running,” have been applied to this strategy.

The key to a successful “cash settlement” manipulation is power and organization. The market must be overwhelmed at distinct points in time. Profit without risk can be achieved so long as domination can be achieved. If no greater opposing force appears or, if none exists, the market can be controlled.

We must recall the Hunt Brothers’ failed attempt to corner the silver market in 1980. What doomed that organized scheme from the out-set was that the Hunts actually OWNED something that they themselves would not consume, a physical commodity, which would have to be sold to complete the transaction to create the profit.

Thus, as in all fair markets, the simple round-trip action of one non-consuming group counteracted itself. As the Hunts were unable to convince or coerce others to take them out of their positions in the physical silver, the futures or options, the price of silver wound up where it started.

Now, consider the logical outcome had the Hunts been holders of “cash settlement” calls and futures on silver (which did not exist at the time). If they would have timed their buying of the physical to achieve the desired price rise through hypothetical “cash settlement” expiration dates (or “triple witching hours” as the press calls it), they would have been cashed out of option and futures positions automatically, for cash, without selling silver and depressing its price. They may have become masters of the financial world, using the EXACT mechanism which others are currently using to dominate today’s equity markets.

In theory, “cash settlement” was created to facilitate operations and to allow participants of any size to move easily in and out of the marketplace. As October, 1987 demonstrated, precious few were able to find liquidity when it was needed most.

We believe that a PROPER analysis of the existing marketplace will demonstrate that a group, a Cartel, now exists and that it has been using the “cash settlement” mechanism to profit from its ongoing manipulation of the New York Stock Exchange. We likewise believe that there is no other group substantial enough to oppose this Cartel and unless it is dismantled, fair capital markets will cease to exist altogether in this country.

**III**

It is folly that regulators who do not fully understand or appreciate the key and subtle features of "cash settlement" futures and options are judging the viability of a marketplace driven and controlled by this instruments.

In our discussions of "cash settlement" with various regulators, we have yet to encounter a single one who begins to understand the mathematics of the mechanism which now dominates our markets.

Our regulators must first acknowledge that they require the input of impartial scholars who can explain that the owner of a “cash settlement” index option or future holds a highly complex instrument the market impact of which they have yet to determine.
Advertisements, such as the following, five years old, from *BARRON’S*, should also intrigue our regulators:

Securities firm employing sophisticated arbitrage strategies and proprietary valuation models for the investment of private funds in the convertible securities and options markets seeks Ph. D. level mathematician to join its research staff.

Experience in securities analysis is not necessary.

Academic specializations of interest are stochastic control theory, dynamic programming, numerical analysis of PDE’s * and optimal stopping theory.

Box S-687, *BARRON’S*

This ad says a lot. What it doesn’t say is that stochastic control theory, optimal stopping theory, superb organization and a few $ Billion may be sufficient to corner our "cash settlement" markets. It is possible that some operators have transformed the US equity markets into a well-oiled machine. Push a button for a specific, predetermined response; stop the market in its track, turn it on a dime once option positions are established, then race it the other way.

Our deregulating SEC and CFTC have allowed the complexities of "cash settlement" to be foisted on an unsuspecting public. It is remarkable that in the wake of a global market panic precipitated by the "cash settlement" mechanism, the Commissions do not appreciate what has happened, and do not know where to look.

IV

Despite all rhetoric, there is no evidence that the existing market is any more efficient now than ever before. Much of the heavy volume does not reflect any genuine change of ownership. Baskets of stock traded back and forth without risk against futures and options add nothing to the economy or to the equity markets. Such positions are established and subsequently unwound strategically to EXCITE the market to profit of "cash settlement" options. The premise that derivative instruments add liquidity is a myth.

The formal studies of the October crash, notably that of The Brady Commission, contend that market volatility has not increased. To quote that prejudiced report: "recent volatility is not particularly high when viewed in a broad historical context."

For calendar year 1987, that analysis fails the sanity test and the flaw is obvious: only day-to-day closing prices were used. The wild INTRA-day swings, so characteristic of the pre-crash environment, were ignored. DAYS where the market traveled THREE HUNDRED Dow

* Partial Differential Equations
Jones points, in violent fifty point swings, to close up or down only ten points just don’t show up. The Brady analysis concerns itself only with NET daily price changes.

Curiously, the Brady Commission did not acknowledge what every professional trader knows: the venerable New York Stock Exchange is being dragged around daily by a new mysterious force.

While 60% of those polled by the Brady Commission agreed that the three "cash settlement" trading strategies (portfolio insurance, index arbitrage and program trading) were “principal factors” contributing to the October, 1987 world market panic, Brady doesn’t follow its own nose to explore how these strategies INTERACT as a mechanism to manage markets.

We have not seen a single published analysis of the crash which has broached even the POSSIBILITY that a market control mechanism exists. Market studies which have received attention have been directly or indirectly sponsored and we cannot ignore the singularity of interest between those who are manipulating and those who have been called on to “analyze” it.

With key data available to the regulators and with scholarly effort, the market control mechanism can be laid bare. It will be possible to demonstrate how the "cash settlement” index option is utilized as the primary profit generator in a rigged marketplace driven by highly managed tape painting. Institutional money is used to move the markets to achieve portfolio managers' specific personal short-term trading objectives in the form of "cash settlement” index option profits.

V

Today's investors must navigate within a marketplace which includes an odd array of players, some of whom are familiar while others are new, unusual and confusing:

A) THE NAIVE GAMBLER: Speculators who try to profit on short-term market moves. Known collectively as “the public”, then often buy "cash settlement” OEX puts and calls. These players and their brokers are substantial net losers but are drawn back to the market repeatedly by the lure of quick “unlimited profit with limited risk”.

As public players become increasingly experienced they realize, much the way casino gamblers do, that the game is not “fair”. Unlike roulette, blackjack and craps however, the OEX game odds are not yet regulated and the house is still unknown.

B) THE NAIVE HEDGER: Institutions and individuals with large portfolios which try to use futures and options to hedge volatile markets and even participate in “index arbitrage.”

If they do not rely on “pros” to manage their hedging programs, they do not succeed. The “pro” is given total control over the short-term trading of these portfolios (with which to help move markets) in exchange for a share of incremental performance.

As an example, Wells Fargo Bank handles the daily index trading for
such august entities as the Rockefeller Foundation and the General Motors Pension Fund (source: *Futures Magazine*, WSJ).

While Wells Fargo clients were major sellers during the panic of 1987, we have seen no analysis which lays to rest the burning possibility that Wells Fargo or key personnel held short positions in "cash settlement" instruments in personal accounts and were using institutional money to drive the market down.

We have seen no attempt to analyze personal trading patterns of fiduciaries who surrender control of institutional portfolios used to create specific market combustibility.

C) MAJOR TRADING FIRMS: Experts who handle the enormous wave of stock “buy and sell programs” which rock the market. These players act both as agent and as principal and enter into quasi-legal profit sharing agreements with institutional clients (source: WSJ) to orchestrate buy and sell orders.

While there is little evidence to indicate that all of these major firms act independently, regulators have sufficient data to determine the level at which they DO act in concert.

To date, apparently, the regulators have chosen not to perform this analysis although some interesting tidbits are emerging. It seems that at least Salomon Brothers and Morgan Stanley (two key contributors to the Brady Commission, no less) were subsequently identified by the SEC as illegal short-sellers into the 1987 panic.

Initially, the trading firms used program trading to manipulate the market only in the moments immediately preceding option expirations.

The level of short-term market control has since developed extensively as the Cartel has reaped $ Billions of profits both on and offshore. Program trading is now the single dominant market mover on a day-to-day basis and is understood only as a system where “the computers make the buy and sell decisions.”

Regulators, by their inaction, are entrenching this mysterious system and are forcing the public to compete against informed traders who “run ahead” with stock, futures and option orders just prior to their own organized prearranged short-term market moves.

Buried away (Appendix 3, figure 12) in its report, without any cross-reference, the Brady Report discloses that the twenty largest trading firms’ principal accounts were net SHORT $200 million of stocks coming into the crash.

This is simply the tip of the iceberg as it does NOT include the short futures and long put positions of either the firms OR their partners’ and principals’ personal accounts, onshore and offshore.
Too, nowhere does Brady mention that the normal long “core” investment positions for these firms is many $ billions.

This is to say that during the weeks prior to the October crash, the 20 major firms were indeed very heavy sellers of stocks for their own accounts.

We believe that certain trading firms helped orchestrate the crash and profited handsomely from it. This is not the impression one gets from either the industry or these sponsored studies.

D) PORTFOLIO INSURANCE OPERATORS: These groups decided when participating institutions would buy or sell $ Billions in waves. Again we are told that the “computers” made the decisions. We are told to believe this handful of portfolio managers had no personal short positions in derivative instruments prior to pulling the plug on the market, selling stocks, as fiduciaries, mindlessly at ANY price.

E) LOCALS AND MARKETMAKERS: These participants make money by watching “body language” of brokers filling large orders for savvy institutional and upstairs accounts. They go WITH the smart money, not counter to it and are the distributors for the Cartel.

The Cartel buys options and futures, in prearranged trades, from key locals and market makers who then hedge against the public in smaller transactions. When all participants are properly positioned, and only then, the market is moved.

The Chicago Merc (CME), through its leadership and paid academicians, has done much to create public confusion and misinformation about how derivative instruments markets function.

While the CME Report claims the locals added liquidity and absorbed selling pressure during the October market panic, The Brady Commission specifically refutes that contention and shows that locals actually contributed to market instability.

It is very important to realize that as the market crash began, key locals and the Cartel members were short and got shorter as they all sold- not bought- the falling market. Savvy traders with short positions do not try to stabilize a panicky market, and this was not to be their finest patriotic moment as the nation shuddered.

F) INDEX ARBITRAGEURS: These are so-called “messengers” who everyone knows are to blame yet don’t know why; these are the darlings of the “efficient market” rhetoricians. There really is nothing wrong with index arbitrage per se. However, there is usually very little real arbitrage going on here.

“Arbitrage” STRICTLY means simultaneous equal positioning. Where a side (or “leg”) is lifted OR where there is a concurrent option position, there is no longer arbitrage.
Consider an arb who owns “cash settlement” calls and is short a stock basket which is offset by long “cash settlement” futures. If this short stock position is covered aggressively on expiration to enhance the value of the “cash settled” long call and long futures, this unwinding may be manipulation but it is certainly NOT arbitrage.

This powerful industry segment INCLUDES the major trading firms and, as such, has many friends in the press and in government. It is shrouded in mystery, lauded for financial artistry and granted significant trading and positioning exemptions.

Index arbs would have us believe that they are in business to make a few percentage points over the riskless rate. They claim marginal profitability from hedging and unwinding stock vs. futures positions.

Nothing is further from the truth. Careful analysis of trading patterns will tell another story. The major source of profit for the dominant index arbs is the tandem “cash settlement” index put and call option positions. Profits from these options are not mentioned when the arb explains market behavior or gives a raison d’etre to the press.

This group also thrives on public confusion and seems to have been a primary formulator and organizer of the Brady Commission Report presentation strategy.

VI

How did an organization, this Cartel, gain the ability to manipulate the New York Stock Exchange? As an overview, we believe that individual Cartel members have had a long history of cooperation and information-sharing throughout their investment banking research, arbitrage and other trading activities.

More specifically, the origination of the Cartel’s present form apparently began in 1981 when the SEC and the CFTC were somehow motivated to introduce “cash settlement” in the “Accord.” This sham (which later emerged in the Futures Trading Act of 1982) included three criteria that a securities index future or option needed to satisfy to be eligible for trading.

The first criterion was that it be “cash settled”. Amazingly, the second criterion was that “it must not be READILY susceptible to manipulation.” What exactly does this mean and what is the intent?

It appears that the Commissions, aware of the susceptibility of “cash settlement” instruments to manipulation, were nonetheless motivated to let the scheme slip through. How, one wonders?

Taking control over the market did not then happen overnight. The first visible action occurred on the April, 1984 option expiration closing bell when small market-to-buy-on-close orders were entered on over 500 stocks, reportedly by a little known firm, Miller Tabak. The OEX index moved two points (equal to about 15 Dow Jones points), a very dramatic run-off move for the 1984 market. Those lucky or smart enough to own index call options profited by
$75 for each $6.25 of market value existing only moments earlier. The unregulated OEX casino had made its debut.

The SEC announced an investigation of that manipulation but found nothing wrong with what had occurred thus giving its formal go-ahead to the high-jinks that have plagued the markets ever since.

Perhaps it is telling that in a subsequent 1986 “round-table” hosted by the SEC and convened to discuss the impact of program trading, Miller Tabak was one of ONLY four firms invited to participate. The other three were Goldman Sachs, Salomon Brothers and Harvard Management, all aggressive program traders. One thing is certain; the SEC had hardly selected a representative sample from the investment community for its “round-table.”

Allowed to run the market at will at each subsequent expiration, the Cartel has grown richer, more powerful, creative and confident with each successful monthly manipulation. The SEC has continued to display unusually benign behavior towards major cartel members, even in the face of overwhelming evidence of wrong-doing. One must ask, who is pulling the strings at the SEC?

VII

In its simplest form, a meaningful upward market movement begins in Chicago where the Cartel establishes a large long “cash settlement” index call position. The S&P futures and selected visible NYSE issues are then simultaneously overwhelmed with large coordinated buy orders, much of which is self-dealing (i.e. tape painting among several cooperating entities who, by pooling, are avoiding real market risk).

Where are the real sellers during this hypothetical rally? Many are either on or urged to the sidelines by Cartel advisors. It is important to recognize that, for the most part institutional-sized orders to buy and sell must be routed through the major firms. Thus Cartel block trading desks are aware of supply and demands vacuums before the markets react to them.

The Cartel’s major profit does not come from stock vs. futures but rather from large concurrent “cash settlement” option positions. Theses positions are established at the beginning of and during major market moves and are often later settled for cash.

This mechanism, or one very much like it, fuelled the bulk of the rally of 1987. With cash constantly flowing into the institutions’ coffers, their prosperity to “index”, and a limited supply of blue chips, there were few meaningful sellers of the big capitalization stocks prior to the crash. In the frenzied takeover environment, the Cartel’s tape painting moved the markets to their outer limits.

The Cartel established a larger short position in index options and futures, hedged core investments, and the market was ready for the very rapid and effectively orchestrated descent. Led by the major trading firms and a handful of participating institutions, the market was crashed.
VIII

There has been and continues to be an attempt to mask and downplay the key role played by the “cash settlement” option in the existing complex market mechanism. The Brady Commission Report and The CME Report do not even broach the potential for abuse from option front-running.

THE OPTION MARKET ACTIVITY AND PRE-CRASH OPEN-INTEREST WERE NOT ANALYZED. It is there where information can easily be found to identify manipulating operators and provide needed insight into the art of “cash settlement” abuse.

It is no surprise that so little about the market mechanism is understood with this key piece of the puzzle intentionally shrouded. We have a better understanding when the true motive behind program trading and portfolio insurance becomes clear:

PROGRAM TRADING AND PORTFOLIO INSURANCE ARE TWO SCHEMES USED BY OPERATORS TO MANIPULATE THE MARKET TO PROFIT FROM CONCURRENT POSITIONS IN INDEX OPTIONS.

IX

Certain aspects of market manipulation should be addressed and included in any thorough analysis:

A) Is there a consensus by regulators that front-running coupled with market manipulation is undesirable?

B) Can we assume that a fair zero-sum market does not allow for consistent material winning by the same group of major participants?

C) Is it fair to presume that entities which have held essentially identical options and futures positions repeatedly throughout a wide variety of major market condition are “acting in concert”? Why haven’t the Exchanges enforced position limits?

D) Should operators who are actively involved in buying or selling stocks and futures in massive market-moving waves have strictly enforced guidelines with respect to their transacting in the related “cash settlement” index options market?

E) Do front-running and manipulation usually occur together? Who were the major owners of puts when the market crashed? Were they coincidentally also involved as major sellers of stocks?

Brady hasn’t asked. Neither have the SEC and CFTC. The data is certainly available and the analysis is straightforward.

Why haven’t tandem analyses of index option trading patterns of major market operators been performed? Why not analyze how independently the major program trading firms (coincidently important contributors
to the Brady Report) were positioned in index puts and futures just prior to the crash and how they behaved during the debacle?

F) How much of the daily stock and index futures trading is to simply “paint the tape” and move the market in desired directions without any legitimate change of ownership? How are the program trading volume numbers determined and have strict enough guidelines been established to monitor the markets?

G) How much credibility should be given to market studies prepared by employees of interested parties? Academicians, like other professionals, are for hire. To blindly rely upon them is folly.

How much have Professors Miller, Malkiel and Scholes been paid by the CME in the past 5 years? Their report is hardly the objective study which their credentials merit. Rather, it is a stunning example of omission and obfuscation. It is no more than a marketing effort to absolve the CME and index futures.

The Brady Commission report is a description of selected details of the crash. That study was most careful not to implicate the Wall Street firms and generally avoided pointing fingers altogether. They treat the crash as a natural phenomenon rather than an intentional, profit-motivated act of organized manipulators.

The Brady Commission relies largely on input from the very firms and individuals who might otherwise be targeted for examination themselves. The director of the commission, Robert Glauber of the Harvard Business School, now an Assistant Secretary of the Treasury, has special expertise in mathematical models for portfolio management. He has had some involvement

with the management of Harvard’s endowment, itself identified (by the SEC) as the sixth largest seller during the crash. Glauber has apparently also had a long standing consulting affiliation with Morgan Stanley and possibly other major trading firms which may be actively involved in program trading.

H) How do “cash settlement” instruments impact the market? Just as standard listed options and conventional futures do increase liquidity and reduce volatility, their “cash settlement” counterparts do the opposite. Yet the same arguments which support the legitimate options and futures markets are used incorrectly to promote the scheme.

Our regulators must arm themselves with unbiased mathematical analysis capable of understanding the new market instruments sufficiently to debunk the rhetoric.

I) How do index options originate and how are they distributed? To what extent is pre-arranged trading involved? We believe that any serious attempt to understand the manipulative market mechanism cannot
ignore that the Cartel has developed techniques to originate as well as distinct arms with which to distribute “cash settlement” options into the market and with which to take them back.

J) If nothing underlies the “cash-settlement” derivative instruments, aren’t they simply a gambling vehicle utilized to promote volatility and control market behavior? What is their real as opposed to their alleged value or purpose? Specifically, who has benefited from them?

K) Why are “cash settlement” futures treated as futures when they are mathematically options?

L) Why should institutions, especially those with tax-free status, be encouraged to transact in a zero-sum market game that probably has no redeeming value and is clearly destabilizing? Why were funds, earmarked for long-term investment, used to actively trade the markets?

M) What of the world’s other “cash settlement” markets? To date we count 26 exchanges around the world which have begun experimenting with the new instruments. There is evidence that every one beyond the initial developmental stage is experiencing unusual behavior (see, for example, reports on the Sydney Financial Exchange’s 10-year T-Bond Contract).

Our regulators should be monitoring the development of aboriginal cartels with their U.S. international investment banker/arbitrageur partners.

N) What kind of numbers are involved? Our preliminary estimates indicate that more than $20 Billion has been reaped by the Cartel in illicit trading since 1984. We believe this money is traceable and recoverable and can be used to fund needed legitimate regulation of the capital markets through the next decade.

O) But have any laws been broken? Yes, many. The markets have been manipulated continuously since 1984 (with a brief respite during 1988 while the enormous profits of the 1987 crash were digested and invested). The Cartel has exceeded position limits and relied upon pre-arranged trading on an on-going basis to defraud public investors.

P) What is the long-term impact of surrendering control of the nation’s capital markets to a Cartel which has probably become the most powerful financial entity in the world?

The capital markets are under the control of a Cartel which has upwards of $ 50 Billion of trading capital with which to move markets. The markets will be subject to this
control so long as the key “cash settlement” instruments (index futures and options) exist.

The casino volatility aura will prevail until our regulators understand, then put an end to what is a rigged zero-sum game.

There are two approaches to dismantling the control mechanism. “Cash settlement” instruments can be abolished altogether or “baskets” of real securities can be used to settle all positions IN EXCESS of some preset threshold.

Those studies prepared by the Brady Commission, The Chicago Merc and the SEC to address the true issues:

The regulators and the general public do not understand “cash settlement”.

“Cash settlement” instruments are being used effectively to manipulate the major equity markets on a day-to-day basis.

Major portfolio operators profited personally from index put positions when they pulled the plug on the market in 1987. This same group owned the index calls when they wildly bought stocks at dizzying levels with institutional money throughout pre-crash 1987. We are seeing a repeat performance in 1989.

The same groups which lobbied to introduce “cash settlement” options and futures are also actively protecting them from meaningful regulation by obscuring their central role in market manipulation and control.

Regulators are not mathematicians and, unlike traders in the financial industry, don’t know where to find them. The one-to-one correlation “cash settlement” and manipulation has yet to be made but it will be. The well-being of our capital markets depend on it.

Before you discount this analysis, ask yourself if you truly understand program trading, portfolio insurance and index arbitrage. Ask yourself if you know anyone who does or who has benefited from the new “cash settlement” instruments.

Do you truly believe the market has become a fairer one over the past few years since their introduction or is there a reasonable chance that they are being used for manipulative purposes? Are you comfortable with the trend toward deregulation of the securities industry?