Roots of Stock Market Manipulation Part 2

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It was once believed that if the Stock Market could be controlled and manipulated at all it would only be for a short time. The stock market was simply too big and even the largest financial powers did not have the clout to have a permanent effect on prices.

That is not true today. Split second trading accounts for most of the volume. The public which is cited as now moving into the market in a frenzy, has been leaving the market for decades. Stock ownership is concentrated in the top 1% of earners. That group does have the money, power to determine the level of stock prices over long periods of time. They are doing that right now and have been for a long time.

Am I making a guess? It could sound like one. What evidence do I have? I don't have a confession or a witness. Do I have any facts? Yes, quite a few, but mostly, all I or anyone else need do is watch. What we have is mountains of circumstantial evidence that most prefer not to look at.

It is not at all hard to find folks who agree that the intentions of the Federal Reserve are to elevate asset prices. What I will show you is how the stock averages are orchestrated and micro managed with the help of the Fed but independently also.

Lets start by coming to grips with who your government actually is and what it is that actually determines political outcomes. A person or institution can be either described as how it is defined or how each functions. If a class of citizens has the power to determine who does or does not get elected, and makes it impossible to remain in office for someone who does not adopt various agendas, that class of citizens is your government, not the ones you elect. **With Fantasy Free Economics I treat institutions and people according to how they function and not how they are automatically assumed to function.** The richest people in the world do have enough money and power to control government and stock prices. Is there any reason why they wouldn't given the opportunity? Do we know their names. No, and we may never.

Back in the early 20th century, when only 8 planets had been discovered, scientists noticed an odd motion in Neptune's orbit. That meant that there was an additional planet in the solar system that had not yet been discovered. That planet is Pluto. They knew there was a planet. It had just not been seen. Control of the stock market can be observed by focusing on phenomenon that would never occur in a free market.

The Federal Reserve does its part but that is just part of it.

Contribution of ALGOs and High Frequency Trading

High frequency trading firms survive and prosper by sabotaging the trades of honest traders, both amateur and professional. In any other time period outside of the past twenty years, no such firms would be allowed to exists. Why are they allowed to operate now? There are natural forces that make it possible. How could firms which cheat the public be allowed to operate? High frequency trading firms are fine politically as long as their efforts cause markets to rise and do not cause them to fall. Who is going to complain about that other than bears who are selling short?

It takes a genius to write and manage the algorithms that are used. Anyone can observe their practice and figure out what the algorithms are designed to do. Years ago when I was sitting in a calculus class, the professor drew a picture of a cow walking up a hill and down again. He wrote an equation that would perfectly track the cow’s path up and down the hill. We could then calculate the position of the cow on the hill based on time. This was only an example but anyone could watch a cow walk up and down a hill and guess real close where the cow would be at what time. We could also see at what point the cow had reached the very top of the hill. Anyone can watch the trading action and see what ALGOs are accomplishing.

Just by watching minute by minute charts during the day it is easy to see how these firms control trading and raise the averages higher. ALGOs are masters at managing order flow. They see it all and they use it all to make profits. They can find and run any stop and they do run most of them. When volume increases, they are much less successful.

Look at the market and you will see a mechanical system that works about the same everyday. In a real market, the same thing never happens for countless days in a row.

AlGOS can manage the trend if volume is low. It is not hard to notice that modern times are the only era where stocks have routinely risen on low volume.

This is a one minute chart of the Dow. It doesn’t look that weird in isolation but this pattern is present with a few variations every day.

Most days the market gaps up. At that point, the market may fall as those waiting to sell exit. There is a basket ready for prices to land in. As soon as there is any stability at all, prices are initially stabilized and then ratcheted slowly upwards and then pushed higher at the close. This pattern occurs for days at a time, and far more than any pattern would appear in a natural setting.

Some days the market does open down. A pattern about like the one above may begin in negative territory. In that case, prices are slowly milked and ratcheted higher and then surge towards the close. There are 5 distinct points on a daily chart.

9:30-10:45 Accommodate any sellers early.

11:00-12:00 begin stabilizing prices and make the snake pattern.

2:00 A trial rally. Often it continues for the rest of the day.

3:00 Attempt rally into the close.

4:00 Bang the close no matter what.

Volume takes on a parabola shape becomes very light for until the close. Heaviest volume is during the first 30 minutes. Second heaviest volume is at the close. This alone is not unusual. Traditionally the heaviest volume occurs at these times. It is the smoothness and total lack of volume and no spikes in volume during the body of the day that is interesting. When volume does spike during the middle of the trading day, that means they are having trouble controlling the market. Sometimes a correction occurs and more efforts to stabilize are initiated. The snake pattern develops and it is here we go again. Volume is the enemy of manipulation.

A culture of short term trading is successfully encouraged. Long term traders and investors account for an insignificant amount of volume. Short term trading has little effect on the market level. An occurrence such as the Corona Virus creates a shock and the ALGOs don't do very well with that. Even in the case of a shock, attempts at stabilization begin at the first sign of the smallest period of consolidation.

Everyday has a plan to get the market higher by the close. There is no connection between the close and the opening the next day. In a competitive market there generally is. A weak close in a competitive market usually has some effect on the next day's open. In a rigged market, it is as if the prior day never happened.

Technical bearish chart patterns like the rising wedge, head and shoulders, double top or just an uptrend line, when broken, used to work for the bearish case from 55% to 60% of the time at a minimum. Back tests show that this is true. In a rigged market, these patterns are a trap. Shorts are entered. They get squeezed and the uptrend redevelops. Any short seller is a friend of the ALGOs. As soon as you short you are going to get squeezed out.

Each day can be divided into no less than four important points.

1.) Overnight futures trading often determines the following days pattern. Typically the market gaps up on the open. The rest of the day is devoted to maintaining what has been accomplished on the open. Usually there will be a partial selloff starting after about 40 minutes. From then effort is made to close the market at the high for the day. If not possible don't let it close below the open. Never let it close down for the day.

After the open, volume is subdued and the chart morphs into a snake like narrow channel until the closed is banged to create the final outcome for the day.

If for some reason, the market opens down. The plan is to stabilize prices at the earliest sign of consolidation. From that time till the end of the day, prices are milked and ratcheted higher in order to close higher at the end of trading.

This process has been going on for years. Still analyst after analyst explain the stock market as if organic trading is responsible is responsible for causing its unrealistic elevation. Mom and pop are not responsible for this at all. The stock market is rigged to a degree only a few are willing to entertain.

If central banks do end up openly supporting equities with more and expanded buying outright, that activity will be mostly in what I describe as anointed stocks. Most notable will be Big Tech, Big health insurance, and big banks. Most stock will go way down regardless. Many will disappear or end up on the pink sheets.

As I write this, the country is experiencing the greatest economic shock in history. Countless efforts are being made to save the anointed stocks and the market. The market will respond negatively in a big way. Efforts to manipulate are facing headwinds greater than those in 2008 and 2009. In that case, all was temporarily saved. The tools used to accomplish that are no longer available.

With a market like this, a crash can occur at anytime. It could happen before I finish this series of articles. My impression is that manipulation efforts are starting to fail. A number of years back I proclaimed that the market would only drop significantly in the event of economic failure of the entire economy. The economy is now failing big time. Count on a reckoning being close at hand.