CORNERED RATS AND THE PPT

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There is a new wrinkle to consider regarding the government's Plunge Protection Team (PPT), which the investing public needs to be made aware of. First, however, some groundwork on the PPT, its origins, and its assumed purposes. Then I will present a theory about the PPT that should further validate its existence and clue us in to what it has planned for the future.

Conventional Wall Street media and Washington establishment types are quick to denigrate those of us who theorize about the establishment of a secretive PPT organization to manipulate the markets. But it is a matter of public record that the Working Group on Financial Markets (WGFM), which we allege to be the parent to the PPT, was formed under the Reagan administration. It was done by Executive Order on March 18, 1988.

This order states that the major appointees of this group are to be the Secretary of the Treasury, the Federal Reserve Chairman, the SEC Chairman, and the CFTC Chairman and those they designate to fulfill their purposes. The purposes, as defined in the Executive Order, are to "[enhance] the integrity, efficiency, orderliness, and competitiveness of our Nation's financial markets and [maintain] investor confidence." The order goes on to say, "To the extent permitted by law and subject to the availability of funds therefore, the Department of the Treasury shall provide the Working Group with such administrative and support services as may be necessary for the performance of its functions." (Executive Order 12631 of March 18, 1988, 53 FR, 3 CFR, 1988 Comp., p. 559)

The WGFM was formed in the aftermath of the crash of 1987 as a natural effort by government bureaucracy to do for the economy what it thinks it is supposed to do -- intervene and manipulate the workings of the marketplace so as to create an ordered economy, an economy that is to the greatest possible extent devoid of volatility, disruption, severity, loss, etc. So it is in this context that we need to consider the origins of the PPT. At the time, there was great fear that something very big had to now be done to regulate the stock market and smooth out its potential volatility. The WGFM (in conjunction with mega-bankers they chose) was to make sure there was always sufficient "liquidity" to prevent any serious plummeting of the market again. And whatever additional interventions were deemed to be necessary would have to be tolerated.

The fact that severe market volatility was largely a result of government manipulation of the money supply and interest rates was merely blanked out on by the WGFM and its creators. A study of our nation's economic history will show to any objective observer that there are natural fluctuations inherent in the free-market that humans must always put up with, but which are always self-corrected if the forces of the market are simply LEFT ALONE. This is basic Adam Smith economics; the smoothest economy is a laissez-faire economy. But these fluctuations become extremely exacerbated with the intervention of government into the mix to try and "manage the economy" so as to eliminate these fluctuations. The fact that the Federal Government had become in the 20th century a massive interventionist-manager of the economy, and thus a massive exacerbator of these natural fluctuations, was something that just could not be grasped by the bureaucratic mentality. The modern day statist has been taught via Marxist-Keynesian indoctrination in college to believe that a "free" market is dangerous, chaotic, and unworkable. He is not capable (or not willing) to dispute this view. Thus, he naturally moves toward more and more MANIPULATION of market forces as his duty. And the very volatility he seeks to diminish, he intensifies.

So the climate of government opinion in the aftermath of the 1987 crash was moving toward even more "interventionist-manipulative" tactics than it had felt necessary during previous decades of the 20th century. In this climate, it is quite natural that the WGFM authorities decided that something *unprecedented* had to now be done to guarantee a safe, smooth, crash-free, perma-bull stock market. Thus was born the idea of the PPT.

How the Plunge Protection Team Came About

Bill King of the highly regarded *King Report* in New York tells us that the PPT sprang from an analysis written and presented by former Fed Governor Robert Heller in 1989. After his paper was published is when the PPT agenda was formalized.

King refers to his associate John Crudele's writing on the subject of how the stock market was to be rigged. "Heller had just left the Fed when he gave a speech suggesting that the central bank should step in and take direct action to keep the stock market from collapsing. The Fed had taken action before. It made sure there was enough liquidity during the crash of '87 to keep the system going. It may have even strong-armed a few banks into propping up the market. And it has often lowered interest rates at opportune times.

"But Heller's idea was different. He wanted a more direct approach, especially when the bond and currency markets were becoming uncontrollable [like they are these days]. Heller believed that in an emergency, the Fed should start buying stock index futures contracts until it managed to pull stocks out of their nosedive. Essentially, whenever there is heavy buying of these futures contracts it causes the underlying stock market to rise. The futures contracts can be bought cheaply; they are highly leveraged so you can get more bang for your buck, and they eliminate the need for a rigger to purchase, say, all 30 stocks that make up the Dow. Heller explained that the process was simple. And it is. The trouble is, the government never has had authority to rig the stock market." [email from Bill King, March 11, 2003 -- kingreport@ramkingsec.com]

King, who at the time was running several equity trading desks in New York, goes on to say that it was during Q1 of 1990, as the Japan bubble was bursting, that massive S&P futures buying began to be used extensively by the trusted agents of the PPT, big 'name' brokers in New York. During the crises of the late 90's, this massive buying increased even more. By this time, many skeptics of such manipulation in the investment advisory business began to realize it was definitely taking place.

If you still doubt, here is a BBC release from the latest *King Report* on the issue: "A deal was struck last week in the United States between a former Japanese finance minister and the head of the U.S. central bank, the Federal Reserve's Alan Greenspan. There was an agreement between Japan and the United States to take action cooperatively in foreign exchange, STOCKS and OTHER MARKETS (bonds? GOLD?) if the markets face a crisis," Chief Cabinet Secretary Yasuo Fukuda said....

We know never to believe anything until it's been officially denied, so we were pleased to note that U.S. Treasury Dept spokesman Tony Fratto did just that, stating: "The administration's views on markets on interventions are well-known and there has been no change in our view." [*King Report,* March 24, 2003]

What needs to be grasped by all Americans who invest their money in the equity, currency, and commodity markets today is that the PPT is not a fantasy conjured up in the minds of conspiracy wackos who see aliens from outer space climbing over their backyard fence every other month. It is a verifiable reality. It exists. It is bigger than any of us imagine. It is the result of the hideous statist mindset that is taking over our country -- which believes that all aspects of economic life must be regulated and MANIPULATED by central planners from Washington. Yet such omnipresent manipulation and regulation goes contrary to the logic, the freedom, the entire meaning of America. When manifested in specific areas like the stock market, it becomes especially unsavory. If such an organization to rig the stock market was ever to become widely known throughout the country, then confidence in the integrity of the markets would be greatly diminished and probably destroyed. So the PPT and all federal bureaucrats who know of it must continually deny its existence. They must travel by night and operate through surrogates.

A New and Sinister Use of the PPT

For the past 12-14 years then, the PPT has been used by Washington to control the price movements of the NYSE through the buying of S&P futures as former Fed governor Heller advocated. Whenever a crisis appears especially threatening, the PPT swings into action to shore up equity prices on the exchange. The media sycophants of the establishment turn a deaf ear to such a claim, but it is accepted by most astute followers of the market today. The sheep who idolize CNBC choose to ignore such revelations when divulged to them because it is in their interests to have such a shoring-up agency putting a floor under them. They are happy with such an arrangement, and being unable to grasp the long range ramifications of such market rigging, they just dutifully go along to get along. That their profits are protected is all they care about. The fact that eventually such rigging will destroy the integrity of the markets as free institutions of trading is for someone in the future to worry about.

Well that future is rapidly approaching us. And it concerns the new theoretical wrinkle I alluded to above. This is purely hypothetical on my part. I have no verification to prove the claim that follows. But if the reader will keep an open mind and think logically, he should come to the same conclusion that I have.

What, in the minds of Federal Reserve and Treasury bureaucrats, is the most important economic need facing our economy today? And as a result of this need, what is it that they desire to do the most? I would say their greatest desire is to counter the potential forces of deflation that have devastated Japan for over 10 years, and now threaten to afflict us also. If this is so, then the most crucial problem the Fed and the Treasury has is to get liquidity into the system so as to hopefully maintain consumer spending and stimulate new capital expansion, but to do so without spooking the foreign holders of American equities and bonds into repatriating their funds, which would bring about a crash of the dollar and the Dow. If the Fed starts printing up dollars wholesale as Bernanke postulated, then alarm bells begin sounding throughout the Forex markets and the dollar starts falling like an elevator with a severed cable. This Washington cannot tolerate. But since it is becoming more and more evident that mere Fed manipulation of interest rates is not going to be enough to counter the forces of deflation, the printing presses have to be brought out. How to start printing money, though, without setting off the alarm bells?

Here is where the Clinton-Rubin "strong dollar" policy and its gold leasing scheme becomes instructive. Rubin understood that to confront the Republican revolution of '94 and insure Clinton's re-election he needed to inflate the money supply; but to do so, he needed to suppress the price of gold so as to not alarm the Forex markets. However, he could not suppress the price of gold by just *selling* Fed owned gold. That was public; it would set off the Forex alarm bells and negate his desire to keep the dollar "strong" while still inflating it. He therefore hatched the scheme to *lease* gold to the bullion banks who would then sell it into the market. Leased gold could still be carried on the Fed's books as an asset; the movement of the gold would not be acknowledged to the world. The bond vigilantes and Forex markets would not get alarmed. The dollar could be inflated, yet made to appear to be strong. Capital would continue to flow into America. Clinton could be re-elected.

The lesson here is that any substantial printing to inflate the money supply must be done SECRETLY. If it is done in large amounts by conventional monetization of bonds and deficits, then it will set off those nasty alarm bells in the Forex markets. The dollar will plummet, capital will flow out of America, and the Dow will crash.

So the Fed has to print up billions of dollars and inject them into the economy without public acknowledgement. Enter the PPT! The Treasury Department has by now found that it is a natural vehicle to use to funnel "new money" into the market secretly. Since the PPT's operations and existence must always be kept secret, then its funding (at least its major funding) must also be orchestrated in clandestine manner. It must be done offshore. And this is where the funding for the PPT undoubtedly comes from. Rubin probably initiated this procedure. The Fed prints up billions of dollars and slips them into an offshore bank account for say XYZ Investment Corp (which is established as a front for the PPT). JP Morgan and Goldman Sachs are then designated as the brokers for XYZ Corp to act as the funnels to bring the "new money" into the economy via the PPT's "market stabilization activities." Thus, there are unlimited funds for use to short gold, buy dollars, and buy S&P futures whenever the markets look to be in jeopardy. Whenever the offshore account runs low, the Fed merely prints up more money for a PPT operative to deposit into the account.

Thus, the Fed and the Treasury accomplish two things that help them to keep their sinking ship afloat: 1) They shore up both the equity and dollar markets and put a cap on the gold market, and 2) they also inject billions of "newly printed" dollars into the economy, which helps them to counter deflation. The important point, however, is that the new dollars are injected into the economy SECRETLY! There is no public record of their entry like there would be if the Fed monetized the purchase of bonds through its open market operations. So the Big Government-Big Banking cartel gets to control the equity, currency and commodity markets, and it also gets to funnel billions of newly printed dollars into the economy without sending out an alarm to the world. In this way, the Federal Reserve can print money big time without causing a big sell-off of the dollar in the Forex markets and an exodus of foreign capital out of America.

The Federal Government will do anything to avert deflation, keep the Dow and the dollar from crashing, and keep gold and silver from skyrocketing. USING THE PPT ALLOWS IT TO DO ALL THREE IN A SIMPLE, SECRETIVE WAY. It's a perfect tool for the disingenuous Machiavellians who run Washington today. As stated, I have no proof of any offshore funding, and no Deep Throat contact has informed me that the Treasury has bumped the PPT's role into a vehicle to inject substantial amounts of "printed" dollars into the economy. But such a role is as natural as members of a Mafia family operating neighborhood protection rackets. It fits the personas of the participants, and it fulfills their needs.

Will Such Manipulation Work?

There is an adage that no man and no group is bigger than the market -- even government men and groups. This can be borne out by any perusal of history. All savvy theoreticians accept this truth. And it is especially true if the market trend that the government is attempting to manipulate is a Kondratieff winter. The only thing that will cure this kind of bear market is the PURGING OF DEBT, which is precisely the opposite of what the Fed and Treasury machinations are geared to do. They are hell bent upon creating more debt and more fiat money to chase more goods and services higher in price. This is what they conceive to be "stability" and "prosperity."

So in the long run, the PPT's manipulatory tactics will not be able to stop the gold and silver bull market, nor will they be able to stop the continued bear market in equities. No government has ever been able to reverse or stop a "primary bull or bear trend" once it is launched. All government manipulators can do is delay the ultimate destination of the market and make for wild swings of high volatility. All they can do is buy some time, which is what desperate men always try to do when their backs are against the wall.

What these manipulators don't realize is that a secular bear market is like a great northern blizzard. All we can do is try to calculate its duration. All we can do is hunker down and ride it out, while loading up on various storm shields that might gain value in freezing weather. The manipulators' efforts to stop the development of the blizzard will fail, but this doesn't keep them from trying to stop it, and in the process creating havoc and volatility along the way.

Therefore, what we can expect from the Fed on an ever increasing scale in the upcoming years is an effort to "manage" the dollar down slowly so as to alleviate America's trade and current account deficits, while trying to keep the Dow from crashing, and also at the same time helping JP Morgan and its cohorts in New York to ease out of their short derivatives. Thus, the Fed needs to push gold down to a low enough price where JP Morgan, et al can buy their shorts back without too much of a loss. This buying back then causes the gold market to shoot up, which then necessitates that the PPT come in and push it back down to where JP Morgan, et al can then dump some more of their short contracts. Jim Sinclair thinks the recent rocket up to $390 in gold was the first big attempt by JP Morgan to close out some of their short positions. It put tremendous buying pressure on the price, and it had to be contained. So the PPT was brought in to push the price down again. (I am not saying that gold didn't get overbought; it did. But you can bet that the PPT was right there helping to push the price down once the market turned. And it will be ever with us into the foreseeable future trying its damndest to convince the world that gold as an investment vehicle is a fool's choice.)

So the Fed's strategy is to try and keep the Dow above 7000 and gold below $400 until all the dangers are purged, i.e., until the New York banking cartel has eased out of its short positions and U.S. corporations are beginning to make profits again. That's why the Fed will be making liberal use of the PPT along with lots of rumors and smear campaigns over the next decade. This is a very dangerous game that these participants are playing, and we need to be aware of it.

As stated above, the only thing such PPT rigging can accomplish in the long run is more WORTHLESS DOLLARS being funneled into the economy, which is just more of the paper money poison that is killing us. But such rigging will be able to buy the Fed and the New York cartel some time. If Greenspan can pull this off until June of 2004, he then retires, and can drop the whole mess in the lap of his successor. He can then escape to his knighthood and become an elder statesman. The crash will come on someone else's watch. So it's a good bet that such motives and manipulations are a prominent part of his present rationale.

This, in my opinion, is the vision of our Federal Reserve and Treasury bureaucrats who are in bed with the mega-bankers of New York City. These are desperate men, and desperate men blind themselves to long term reality. They shrink their focus down to the short run, so as to buy time. This is why the PPT is going to become a much bigger and more dangerous element in the investment markets as this decade unfolds. We must always keep in mind that desperate men are like cornered rats. They will use any means at their disposal to avoid loss and humiliation. These are the people who are governing us today -- cornered rats.

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