Remember Free Markets?

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Forget about market fundamentals: P/E ratios, debt ratios, earnings, blah blah blah. Forget about technicals: Double-tops, support, resistance, who cares? Those concepts were relevant in the good old days, but not in our super-duper never-a-bear-moment, new and improved 21st century government/central bank managed and manipulated market.

That's right folks. I'm talking about market manipulation and I'm here to tell you that the idea is no longer the exclusive domain of wackos and nutjobs like me. Market management has become so blatant, so undeniable that even Stephen Roach of uber-mainstream Wall Street firm Morgan Stanley recently wrote "I am not a believer in conspiracy theories. But the Fed's behavior since the late 1990s is starting to change my mind."

Why talk about manipulation? Why do we care? Because in my estimation, it has become the single, most-dominating force impacting your investments today. I won't delve too deeply into the mechanism or the means as this information is readily available all over the Internet. But a brief history is in order.

Prior to 1987, we had relatively free markets in this country. Government, albeit stupid overall, had sense enough to leave this one area relatively free of intervention, aware that while they can screw up just about everything else and get away with it, it's not a good idea to bite the hand that feeds you.

But after "the crash", Executive Order 12631 created the "Working Group on Financial Markets", consisting of the Secretary of the Treasury and the chairmen of the Federal Reserve, the SEC and the CFTC (or their designees.) Their goal: to enhance "the integrity, efficiency, orderliness and competitiveness" of our financial markets and to "maintain investor confidence." The means: "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."

And what better way to maintain investor confidence than to make sure the stock market doesn't go down by tossing the Treasury's unlimited resources at it?

From the WGFM grew what today we nutters and wackjobs refer to as the "Plunge Protection Team." It is surmised that this group was built upon 1989 suggestions from Fed Governor Robert Heller who felt that the Fed should purchase stock index futures during market "emergencies" in order to halt major declines.

Do we know that the PPT exists? Official government denials of its existence are our first clue that it almost certainly does. But we needn't resort to cynicism for evidence. If such a creature exists, it must leave footprints in the market. Where there are footprints, there must be creatures. And oh yes, there are footprints.

Since the current cyclical bull began the S&P 500 has never suffered so much as a 10% correction. That is "unusual" like Mt. Everest is "a decent chunk of rock." In the two years during which the economy has struggled with the worst "recovery" on record, in the face of stagnant job growth and a host of other problems, the market has been so flooded with bullish investors that it couldn't pull back 10%? Nonsense.

In fact, whenever the market appeared ready to reverse its uptrend at key technical levels, (and it tried PLENTY of times), huge buying appeared in the futures pits. These were obvious levels that, if violated, would have triggered much more substantial selling. Some "market player" was willing to throw oodles and gobs of money at the market to prevent it from falling.

While there are funds that have that kind of capital, there aren't funds that are stupid enough to step in front of a speeding freight train to take a contrary position when they could make so much more money so much faster by positioning themselves WITH the decline.

Sure, every once in a while some of them get crazy and make a huge contrary bet. But not EVERY time and not at EVERY major turning point. None of them have enough capital, cojones nor dim-wittedness to attempt to halt a decline every time.

Who DOES have enough capital and dim-wittedness? Someone who has access to the United States Treasury. (And in this case, cojones has nothing to do with it. It doesn't take much cojones to spend other people's money.)

This behavior has recently become very obvious. On 20 April, the Dow came within a hair's breadth of the 10,000 level. The market had tanked a few day's prior and technically, it was clear that a major market top was in place. The psychologically critical support level was about to be violated, likely unleashing a torrent of selling.

In the wee hours of the following morning the stock index futures markets began to rally sharply. By the time the cash market opened the Dow was already up 100 points.

If you watch the futures markets you know that the Dow NEVER climbs anywhere near 100 points overnight, unless in response to a big move overseas or major news. That wasn't the case this time.

Major players aren't doing much of anything during those hours. The markets are exceptionally thin. Foreigners and U.S. insomniac traders do not have the means to push the market up 100 points. So why did the market behave so unusually? Because some big, dumb buyer did something that no one else ever would, and did so gladly because "he" was playing with unlimited resources and stood to lose nothing.

Hmmm, let me think now: Big, dumb, unlimited resources. Who could it be?

It was a perfect opportunity for the PPT. Thin markets, no one around to take the opposite side. Push the market up to a sharply higher opening and the public will almost certainly grab the ball and run with it, wildly bullish and afraid to miss "the next big move."

And so they did. The Dow closed up 206 points on a day with mixed economic news, much of it bearish, none of it all that bullish.

The same thing happened last Friday following Thursday's downdraft that looked like another inevitable assault on Dow 10,000. Futures rose sharply overnight, the market opened sharply higher and by the end of the day was up 120 points. Another disaster averted at a key technical level.

This is not the way the markets used to trade. This is not the way that traders, the public and funds trade. There is no reasonable way to explain it without positing the existence of a major player with a vested interest in keeping the market from falling. And there is no private or public player big enough to do it and consistently get away with it. In light of the Executive Order and Heller's 1989 ideas, one has to conclude that the government is involved.

Gold's another fine example. We won't get too deeply into that either as plenty of information can be found at www.gata.org. Suffice it to say that the Gold Anti-Trust Action committee (GATA) was formed in an effort to expose this manipulation, resulting in a lawsuit against Alan Greenspan, several large Wall Street firms and the Secretary of the Treasury. The footprints are all too obvious in this market as well.

Commodities are in a huge bull market. The most recent upleg exhibited huge upward momentum. Crude oil surged to record highs. Steel, copper, platinum, aluminum: all at multi-decade highs. Commodities are on fire and inflation is rising even by officially manipulated "feel-good" data. Everything is rising. Except gold.

Gold's reputation is that of the ultimate inflation hedge. One of its primary roles in modern times has been to sound the inflation alarm, to let us know that the central bankers are screwing up. Yet in the midst of rising inflation and major Fed screwing-up gold is just sitting there. On days when bad inflation news comes out, gold gets hit with selling. Does this make sense? None.

Sure, we can buy the mainstream financial media spin that gold no longer has a monetary role, is no longer an inflation hedge. But tell me how it is that the one thing that has always been known to rise in response to inflation is not rising in price when everything else is? Funny how the one market that should expose the Fed's quackery is the only one that sinks in a "rising tide that lifts all boats."

Gold has repeatedly been "whacked" at key technical levels that if penetrated, would have brought in heavier buying. (Thereby alerting the world that the Fed is screwing up.) In most cases gold managed to eventually move higher, but only with great difficulty. And today, with inflation becoming undeniably obvious, the market has stopped rising. Not for legitimate reasons but simply because traders are tired of having their heads handed to them by an unethical, manipulative market opponent.

These are just a few of the more obvious examples. If you look at what's going on in the markets with an intelligent and perceptive eye, you can't help but conclude that they are being manipulated by a powerful group, a group that possesses more resources than any fund or individual trader.

Does it matter? Is it wrong? Shouldn't the government maintain order in the markets? We could go on for days debating the "morality" of it but it doesn't matter. What does matter is the fact that this IS going on and it's having an increasingly large impact on our investments and market opportunities. In fact, it's eroding the quality of both. Long-term interest rates, stocks, gold and other markets have displayed narrow bands of movement for years. Longs aren't making money. Shorts aren't making money.

Worse still, these efforts serve only to destroy the function and integrity of the markets. The longer the market is artificially held higher, the longer a real, sustained bull market is postponed. When the market is managed it ceases to fulfill its most important role: price discovery. Buyers and sellers can no longer come together to determine the real value of a stock or commodity. Prices become a sham that no one can trust.

In the end, manipulation will fail as no one is bigger than the market. A market that serves any legitimate, useful function will eventually find its appropriate level. Unfortunately, the failure of that manipulation is likely to cause investors much more headache than a simple secular bear market left to its own devices ever could. Arrogant feds and central bankers will never get it, always seduced by their delusions of grandeur, convinced that they're smarter than the marketplace. The little guy will reap the fallout of their inevitable failures, but you don't have to. Know that this is going on and position yourself accordingly...

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Mark M. Rostenko, a veteran of Chicago's commodity exchanges and editor of The Sovereign Strategist, spends far too much of his time enthralled by the never-ending procession of inane prattle emanating from Wall Street. Nonetheless, it hasn't stood in the way of accurately forecasting the dollar's top, the beginning of the gold bull market, and nearly every significant turning point in the stock market since the bear market began. Please visit www.sovereignstrategist.com for a free sample issue and more commentary. And while you're there, feel free to join our international family of well-informed and successful investors.