

Gaming The System

Market manipulation as a way of life? In December of 2006, Jim Cramer on Street dot com TV sits with the host 'Aaron Task' in an interview show called 'Wall Street Confidential' and discusses how hedge funds and big money players manipulate the market for fun and profit. Cramer discusses price fixing, spreading rumors and how fomenting the market works, "because the SEC doesn't understand it".



Jim Cramer on Street dot com TV

The show was apparently not meant to be public as it is only available to subscribers. But in the age of digital media, keeping something private is less likely than one might hope.

When discussing how to manipulate the market Cramer stated, "when I was short at my hedge fund, and I was positioned short, meaning I needed it down, uh, I would create a level of activity before hand that could drive the futures, it doesn't take much money. ...maybe you need 10 million in capital to knock the stuff down, but it's a fun game and it's a lucrative game and you can move it up and then fade it, that often creates a very negative feel."

He then stated, "no else in the world would ever admit that".

"it would beleaguer all the moron longs"

Cramer then discussed how to foment the market, "So um this is different from what I was talking about at the beginning, where I would be buying the Q's and stuff this is actually just blatantly illegal. ... that might cost me 15, 20 million ante to knock RIMM down, but it would be fabulous, because it would beleaguer all the moron longs who are also keying on Research in Motion."

"a very effective way to keep a stock down"

In discussing Apple he states, "if I were short Apple, I would be working very hard today to get that, and the way you would do that is you would pick up the phone and you call six trading desks and you say listen I just got of the phone with my contact at... there is no room for Apple, they want to much, we're not gonna let them in ... I think that's a very effective way to keep a stock down."

"when your in that hedge fund mode is to not do anything remotely truthful..."

He goes on to say that in the process you use a firm "that doesn't know what the heck it's doing, maybe you go to UBS for puts" and "What's important when your in that hedge fund mode is to not do anything remotely truthful..."

Cramer says that "The mechanics are much more important than the fundamentals. Who cares about the fundamentals" and "a great thing about the market is it has nothing to do with the actual stocks".

After stating that the market is "just fiction and fiction and fiction, he then moves on to discussing price fixing.

Cramer: The problem, the problem with the cell phone market frankly is that these guys are all killing each other you know. Someone has to take a dive. Motorola and Nokia have to get in a room and just fix price. They've been reluctant to do that because of the various justice departments, and because they...

Host: And it's illegal, right yeah.

Cramer: Well, that hasn't stopped a lot of other companies.

Host: This is true.

Do we live in a free market? It seems market manipulation is a way of life for some. What does it mean to the average investor or the average citizen? What does it mean for the market?

Cramer states, "...this is an intra-day show...", so in context, this may have less to do with long term investors? The question that arises is, if millions, or even billions of dollars are being gamed out of the system through market manipulation, is that really acceptable?

Should some people be allowed to earn their money at everyone else's expense, illegally, or even by legal manipulation? If it's not acceptable, then what needs to be done?

This is an awareness issue. Gaming the system weakens the system, and that means the Fed needs to add liquidity to make up the difference most likely. Those dollars have to come from somewhere. In reality it comes from inflated prices and less value to the consumer on an everyday basis. It may not be noticeable to most but as time moves on, it is getting harder and harder for the average American to get by.

The Video transcript came from street.com TV's - 'Wall Street Confidential'

Transcript as follows:

Host: Welcome to Wall Street Confidential, I'm Aaron Task joined again by Jim Cramer, Jim Welcome.

Cramer: Good to See ya,

Host: Thanks for being here. Uh, a little economic data update today but I want to talk about something else first. Again today we have the misdirection from the futures, the futures are pointing to an up market and as of right now the stocks are down again. Is this just because it's the holiday period, that we're seeing this.

"I would encourage anyone who's in the hedge fund to do it because it's legal and it's a very quick way to make money..."

Cramer: You know, a lot of times when I was short at my hedge fund, and I was positioned short, meaning I needed it down, uh, I would create a level of activity before hand that could drive the futures, it doesn't take much money. Similarly, or if I were long and I would want to make things a little bit rosy, I would go in and take a bunch of stocks and make sure that they are higher, and maybe commit 5 million in capital, to do it and I could affect it, uh, what your seeing now is maybe, it, probably a bigger market now, maybe you need 10 million in capital to knock the stuff down, but it's a fun game and it's a lucrative game and you can move it up and then fade it, that often creates a very negative feel. So let's say you take a longer term view intra-day, and you say listen I'm going to boost the futures and then when the real sellers come in, the real market comes in, their going to knock it down and it's gonna create a negative view. That's a strategy very worth doing, when your valuing on a day to day basis, and I would encourage anyone who's in the hedge fund industry to do it because it's legal and it's a very quick way to make money and very satisfying.

Cramer: By the way, no else in the world would ever admit that, but I could care...

Host: That's right and you can say that here.

Cramer: I'm not gonna say it on TV.

Host: Well, There's so many more hedge funds today than when you were managing your hedge fund.

Cramer: Right, right.

Host: Do you think that, does that exacerbate the moves or does it make it tougher because there's...?

"it's really important to use a lot of your firepower to knock that down"

Cramer: Well you know the hedge funds are positioned long/short okay, not just long like mutual funds, so it's really vital these next six days, cause of your payday, you've really gotta control the market, you can't let it lift. When you get a Research in Motion it's really important to use a lot of your firepower to knock that down, because it's the fulcrum of the market today. So let's say I were short, what I would do is I would hit a lot of guys with RIMM, now you can't foment. That's a violation of...,

Host: Ferment?

Cramer: You can't foment.

Host: Foment.

"this is actually just blatantly illegal."

Cramer: You can't create a, yourself an impression that a stocks down, but you do it anyway because the SEC doesn't understand it. So, that's the only sense that I would say that it's illegal, but a hedge fund that's not up a lot really has to do a lot now to save itself. So um this is different from what I was talking about at the beginning, where I would be buying the Q's and stuff this is actually just blatantly illegal. But when you have six days and your company may be in doubt because your down, I think its really important to foment, if I were one of these guys... Foment an impression that Research in Motion isn't any good, because Research in Motion is the key today, so you know you would hit this guy and that guy, when you would see an offering when you see a guy is bidding, you'd wipe out that guy very quickly.

"you would call the journal and you would get the bozo reporter on Research in Motion and you would feed that there's a..."

What I used to do um was called, if I want it to go higher I would take and bid, take and bid, take and bid, and um if I want it to go lower hit and offer, hit and offer, hit and offer, and I could get a stock like RIMM for maybe, that might cost me 15, 20 million ante to knock RIMM down, but it would be fabulous, because it would beleaguer all the moron longs who are also keying on Research in Motion.

Host: There's a lot of that going on today...

Cramer: So were seeing that's..., again when your company is in survival mode it's really important to defeat Research in Motion, and get the Pisanis of the world and the people talking about as if there something wrong with RIMM. Then you would call the journal and you would get the bozo reporter on Research in Motion and you would feed that there's a..., Palms got a killer... that's gonna give away... There are all the things yo must do on a day like today and if your not doing it, maybe you shouldn't be in the game.

Host: Another stock that a lot of people are focused on right now seems to be Apple...

"spread the rumor... you would pick up the phone and you call six trading desks and you say..."

Cramer: Yeah, Apple's very important to spread the rumor that both Verizon and AT&T have decided they don't like the phone.

Host: Right...

Cramer: That's a very easy one to do, because it's also... you want to spread the rumor that it's not going to be ready for MAC world. And this is very easy, cause the people who write about Apple want that story and you can claim that it's credible because you spoke to someone at Apple cause Apple isn't...,

Host: Right, there not gonna comment, there not gonna say...

Cramer: So it's really an ideal short and I would..., again if I were short Apple, I would be working very hard today to get that, and the way you would do that is you would pick up the phone and you call six trading desks and you say listen I just got off the phone with my contact at Verizon. He has already said listen we're a lucky G house we're a Samsung house, we're a Motorola house, there is no room for Apple, they want to much, we're not gonna let them in, this is not..., were not gonna let them do what they did to music and you know I think that's a very effective way to keep a stock down.

Host: Right...

Cramer: I might also by the way, cause the stocks at 84, 85, with a little bit of capital you go buy some January 80 puts that makes it look like there's gonna be something going on so maybe you give Morgan an order to buy a thousand Jan. 80 puts, then you go position limit with uh you know uh,

use a (?hep?) firm that doesn't know what the heck it's doing, maybe you go to UBS for puts,

"what's important when your in that hedge fund mode is to not do anything remotely truthful"

and you just kind of create an image that there's going to be news next week, and that's gonna frighten everybody, then they all go out and say large put buyer at UBS and then they call Pisani again, you have to use those guys, and say listen I see a big buyer of puts and I'm told it's as they say, and you would do that too. And these are all, what's really going on under the market that you don't see.

Host: Right, and nobody else talks about it except...

Cramer: What's important when your in that hedge fund mode is to not do anything remotely truthful, because the truth is so against your view that it's important to create a new truth to, to develop a fiction. And um the fiction is developed by almost anybody who is down like 2% to up 6% here. You can't take any chances, you can't have the market up any more than it is if your up 6, because starting Jan 2 you'll have all your money come out, so what would you do if your in that situation and you feel like your desperate, is that you would do these actions.

Host: Your talking about the mechanics of the market...

Cramer: The mechanics are much more important than the fundamentals.

Host: Well okay, well but in terms of the fundamentals even writing about how you...

"a great thing about the market is it has nothing to do with the actual stocks"

Cramer: Who cares about the fundamentals, Research in Motion just blew out the quarter, but look what people can do, I mean that's a fabulous thing, it's a great thing about the market is it has nothing to do with the actual stocks.

Now look, over maybe two weeks from now the buyers will come to there senses to realize that everything they heard was a lie. But then again Fannie Mae lied about their earnings for 6 billion dollars.

Host: Right and Bristol Meyers lied.

"It's just fiction and fiction and fiction."

It's just fiction and fiction and fiction. And I think it's important for people to recognize that the way that the market really works is to have that nexus of hit the brokerage houses with a series of orders that can push it down, then leak it to the press, um and then get it on CNBC, that's also very important, and then you have a kind of a vicious cycle down and it's a pretty good game and it can be played, it can pay for a percent or two.

Host: Right and then do you get long before Mac World. And the expectation that there are (?) it's gonna be good and then you go back to the long side.

Cramer: Well yeah, because, you, you drove it down, you certainly gotta use the other side.

Host: Interesting.

Cramer: And there's the case where the January 80 puts can be justified because after I've knocked the stock down to 80 I can buy a lot of common and then play it right into Mac World where they'll probably introduce the phone and Verizon's gonna take it.

Host: Okay. Well maybe the fundamentals don't matter, but let's talk about the Fed a little bit.

Cramer: Well remember, what Wall Street Confidential is, is, is not giving you the party line. Oh, here's the party line by the way, I spoke to Apple on the phone, I hear the phones are good and um Verizon might take it, and as a matter of fact the Research in Motion sellers, I don't think they know what they're talking about, ...you know.

Host: But even... The cell phone market you think is, you don't wanna be involved in that...

"Motorola and Nokia have to get in a room and just fix price"

Cramer: The problem, the problem with the cell phone market frankly is that these guys are all killing each other you know. Someone has to take a dive Motorola and Nokia have to get in a room and just fix price, they've been reluctant to do that because of the various justice departments, and because they...

Host: And it's illegal, right yeah.

"the shareholders demand that you get phony lawyers"

Cramer: Well, that hasn't stopped a lot of other companies.

Host: This is true.

This seems to be a case where they seem to be directly worried about the authorities. It's almost as if they have a lawyer that matters, on let's say the Bristol Myers lawyers; and what eventually happens is the shareholders demand that you get phony lawyers, and you sit in a room, and it will happen soon.

Host: Real quick, the Fed. The numbers out today weaker than expected.

Cramer: Oh so what, the Fed has obviously got to cut. But again, you call, you call the various guys who cover the bonds and you say to ignore the bond action. What's really happened is the Fed is very frightened about, and then you gin up the number that they're really frightened about. The Fed is actually um desperate to try to figure out uh you know how quickly that they have to cut without looking like dopes that they raised in May.

Right: Because they've been talking about their worried about inflation all this last few months.

Cramer: You don't want to raise in May and then cut in January, you'll look like Mexico for heavens sake. I mean this is like a distinguished group of people that went to really good schools.

Host: Right these are smart guys absolutely.

Cramer: Yeah they don't want to look like dopes.

Host: But when we were talking earlier in the week you said you think it would be some sort of crisis, possibly Ford being a trigger.

Cramer: Well, you know Ford went and did all that, they pledged all this investment banking to all these guys, so now that they are very reluctant to say negative things. It makes it much tougher for the Ford story to play out. I mean the amount of business that Ford has to do, Ford might be the big client of 2007, so if I were in the corporate finance room I would say listen to the research guy, I would say, listen you know I spoke with Mulally, I actually have the inside, the plan works, so then you go to the research guy and you say oh man what do I do, um, it's bonus time, I'm not going to be a total idiot, cause Spitzers going to Albany. Let's, let's get back in the game, I think that's important.

Host: Right, is it possible, cause a year ago at this time a lot of people were saying GM's about to go bankrupt and of course the stocks up 50 some odd percent Should Ford... that stock

Cramer: Well there, there GM, but GM, the difference between Ford and GM was that GM's balance sheet was never really, it turns out it wasn't that bad, Fords balance sheets pathetic. And you know that because they're willing to screw over the common for the bonds, that's kind of, if it weren't Ford... if this were um Qualcom, we'd be sitting here, Qualcoms desperate you know, but no it's Ford, so we say it's Ford, I drove a Ford, I owned a Ford once.

Host: But it's Ford it's an American Icon and it's... and this is our country. Well this has been Jim Cramer...

"Can you really risk having RIMM up this much, I don't think you can?"

Cramer: Again, you know, what I'm trying to go for in the Wall Street Confidential, and I'm not saying you're... I have to talk about what it's like at my hedge fund, okay, because and what other hedge funds do, because the difference is that, if this is an intra-day show, and you need to know what's going, what I know is going on; now we step back, Research in Motion was a real blow out quarter, it was a really good quarter and I was quite surprised how strong the margins were. It looks like the other guys have really dropped out, it's a terrific story, should it be up six, yeah I think so, but you know, look where we are, it's Friday, you got five more days to make your quarter. Can you really risk having RIMM up this much, I don't think you can?

Host: Okay, and there not, and if I'm correct your off next week and I am as well, so we'll be back in 2007 for more of this...

Cramer: I'm hoping that we get, that we finish the year at 1260 cause that's uh, at 12,460 because that's what I said at the beginning of the year was. Now yesterday when we came in and we were 20 points away from where I predicted. You know, I wanna nail it.

Host: Do you have a forecast for 2007.

Cramer: Yeah but I'm not, it's over a series of five days so people will have to go to realmoney.com

Host: Check it out on realmoney.com and Jim thanks very much for being here. I 'm Aaron Task, stay tuned for more of the street.com TV.