Short-sellers bet against a stock using " circuit breakers."

By

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The SEC adopted the uptick rule in 1938; officially known as rule 10a-1, after an inquiry into the effects of concentrated short selling during the market break of 1937. The rule was originally put in place to avoid financial crime known as a bear raid. However, short sellers themselves viewed the rule as "largely symbolic" and having little actual effect on short selling. [

On October 20, 1987 the day after the Dow Jones Industrial Average fell 508 points The New York Times reported that day President Reagan met with the president of The New York Stock Exchange John Phelan Jr., Secretaries of the Treasury Nicholas Brady and Chairman of Federal Reserve Alan Greenspan, in order to prevent another market crash at this meeting they on October 23rd instituted temporary "circuit breakers"

The typical procedure after a market crash was to price stocks but the next day was Saturday and business would have to pay an enormous amount of money for over time asked Reagan to intervene. By Monday, temporary circuit breakers were placed on United States financial market. System.

The Wall Street Journal and New York Times reporter Tim Metz wrote in an article on October 21, 1987 "It will seem a decision has been made at the highest levels that, even in America, some questions are best not asked. "

Quoting Swiss America Corporation Craig R. Smith, "Locking individual stock market investors in a burning theater violates our most basic free market," said "Institutional investors are forcing 'the little guy' to give up liquidity for their protection ".

Investigator for the Senate Banking Committee Bart Naylor said of the Major Market Index futures trading. "This is tricky, you don't want to put people in jail for saving the market."

Chicago Mercantile Exchange President and CEO Rick Kilcollin stated "The worst form of cronyism. When a few big banks in the countries go bankrupt, and people become poor, jobs are lost, then the US stock exchange will understand their role was cronyism."

The allurement of circuit breakers has driven stock markets around the world to endless highs, overloading computerized trading systems and creating rampant unbridled borrowing

Circuit breakers promise high profits and sure avoidance of large losses just by using daily volume and simple charts to help pick stocks effectively. Traders can manage which times are the best to buy or sell by understanding indicators that identify support and resistance zones.

Few resisted investors were caught by the bait of riches, which always lays cause of many countries ruin. At a Senate subcommittee hearing on Jan. 29, 1998 Chairperson of the Chicago Mercantile Exchange Scott Gordon said of circuit breakers "Instead of adjusting the levels at which circuit breaker trading halts should be eliminated because it disconnects rather than coordinate markets."

"The genie is out of the bottle and it ain't going back in " said E.E. "Buzzy" Geduld, a veteran Nasdaq brokerage firm president of Herzog Heine Geduld Inc., "I think that people have learned that this is sort of a game, and you can make money playing the game."

From 1987 to 1999, the Dow Jones Industrial had peaked an extraordinary 311 percent. Our balance of power was at stacking almost $25 trillion dollars an unimaginable pace of capital outstanding was owed to foreign investors.

Circuit breakers are triggered if the Dow Jones Industrial Average declines by approximately 10% depending on the time of day. If the trigger occurs before 2pm Eastern Time, trading is halted for 1 hour. If the trigger occurs between 2 and 2:30pm Eastern time, trading is halted for 30 minutes If the circuit breaker trigger occurs after 2:30pm Eastern time, no restrictions are put into place. This was first used during the afternoon of the second is triggered if the Dow Jones Industrial Average declines by approximately 20%. The restrictions that are put into place again depend on the time of day when the circuit breaker is triggered. If the circuit breaker trigger occurs before 1pm, trading is halted for 2 hours. If the trigger occurs between 1 and 2pm, trading is halted for 1 hour.

If trigger occurs after 2pm, the NYSE ends trading for the day. The third circuit breaker is triggered if the Dow Jones Industrial Average declines by approximately 30% the New York Stock Exchange closes early that day. If investors buy or sell quickly before the 50-point move triggers the halting of the automated trading and shuts off the computer? New York Stock Exchange sidecar rule when the Dow Jones Industrial Average moves up fifty points re.

S&P500 futures moves twelve points the Chicago Mercantile Exchange restriction one re. S&P500 futures contract drops two and half percent Chicago Mercantile Exchange restriction two S&P500 futures contract drops five percent, Chicago Mercantile Exchange restriction three re. S&P500 futures contract drops ten percent New York Stock Exchange circuit breaker nr. One is triggered when the Dow Jones Industrial Average drops ten percent and the New York Stock Exchange circuit breaker nr. Two re. Dow Jones Industrial Average kicks in when the DJIA drops twenty percent and New York Stock Exchange Circuit breaker nr. Three re. Dow Jones Industrial Average drops 30%.

When the Dow Jones Industrial Average it moves up or down 50 points triggering program trading turn off, curbs or when New York Stock Exchange Collar Rule 80A circuit breaker is triggered the main computer and program trading is performed by hand. This is called index arbitrage. This rule is also known as the "uptick downtick rule", uptick restricts sells, and downtick buys. Also when the market is down, sell orders cannot be executed at lower prices. In an upside, market buy orders can't be achieved for higher prices. As the Dow Jones Industrial Average retraces it's gain or loss to within 25 points of the previous days close the collar is removed. New York Stock Exchange Sidecar Rule restriction is triggered if the S&P 500 futures contract moves more than 12 points, which corresponds to about 100 Dow Jones Industrial Average points. What happens is that program trades are held for period, no less than 5 minutes.

You might say they were sidetracked or held on a sideline, probably when the futures contract retraces to within 12 points. Chicago Mercantile Exchange restriction trading in the S&P500 futures contract is halted just for a few minutes if the prices drop 2.5%, 5%, or 10% from the previous close. Rule 80B was in 1988, set triggers at 250 Dow Jones Industrial Average points and 400 DJIA points. Now, curtail the heights to which the Dow Jones Industrial Average has climbed.

A seasoned market observer for The Wall Street Journal, Tim Metz, write an article in The New York Times on October 21, 1987 said, "It will seem a decision has been made at the highest levels that, even in America, some questions are best not asked.

October 23, 1987 circuit breakers were placed on the Major Market the Index of twenty of the best blue chip stocks that make up the Dow Jones Industrial Average surged up 126 points. I could not help but notice the increasing liquidity that was put back into the market. The next day the Dow Jones Industrial Average rose186 points, and by September 1989, the Dow Jones had retrieved all the value it had lost in 1987 crash.

Look at the growth of stocks in 1999 it sent U.S. unemployment to its lowest level in decades in spite of the fact that manufacturing has erased 337,000 jobs in 1999.

U.S. exports dropped 1.4 percent to $76.8 billion for the month of January, the lowest level since August and that weakness reflected declines in sales of farm products, including corn, cotton, and wheat, civilian aircraft and autos. Imports soared 2 percent to $93.8 billion month demand for foreign autos and foreign auto parts, consumer products and food all rose to all-time highs. While the deficit in 1999 will easily surpass the record $169.3 billion imbalance set 1998 the ability of American manufacturers and farmers to sell in world markets.

The Security and Exchange Commission and the Brady Commission placed circuit breakers into the stock market "permanent" in October 1988 Circuit breakers trading halts and limits any broker was able to place large buy and sell orders in a blink of the eye. It has created overpriced stock and has oppressed economic growth, now companies cannot raise the money or estimate for future goods because either their cash is exhausted or faith in the company has begun to falter.

New York Times Nathaniel C. Nash wrote Tuesday, April 26, 1988 that White House Working Group would produce a set of proposals that would closely track the broad recommendations made in January by the Brady commission.

By mid-March The White House Working Group created by executive order over the objections of several members of Congress and scheduled to submit its proposals for coping with any new market crisis to the President Reagan by May 18. 1988.

The Brady group recommended the Fed be given regulatory authority over key inter-market issues such as circuit breakers, margins, and clearing systems.

The Working Group's headed by Treasury Secretary James A. Baker 3d. The group also included was Alan Greenspan, chairman of the Federal Reserve Board; David S. Ruder, chairman of the Securities and Exchange Commission, and Wendy L. Gramm, chairman of the Commodity Futures Trading Commission.

They all advocated a coordinated circuit breaker that would shut down trading on stock and stock-index futures simultaneously in a market emergency, such a provision came under increasing criticism both on Capitol Hill and on Wall Street. Some felt trading halt could exacerbate a market plunge as traders rushed to sell into a falling market before the halt took effect.

In a testimony before Congress John J. Phelan Jr., chairman of the New York Stock Exchange, on April 14, 1988 and Leo Melamed, head of the Chicago Mercantile Exchange, said they were jointly working on a plan to halt trading in both their markets.

There were some members of Congress, prominent among them was Representative Edward J. Markey, the Massachusetts, who charged that the White House group was stalling to run out the clock on the current legislative year and avert any Congressional action at all.

By 1989 circuit breakers were placed on all the Major Market and the Index of twenty of the best blue chip stocks that make up the Dow Jones Industrial Average surged I could not help but notice the increasing liquidity that was put back into the market, by September 1989 the Dow Jones had retrieved all the value it had lost in 1987 crash.

Circuit breakers" are government Regulations Collar Rule 80A and 80B Rule. Also, the Arbitrage Tick Test Rule known as uptick downtick was placed on The New York Stock Exchange and The Chicago Mercantile Exchange giving investors a chance to pause and wait for the market to cool down.

There were considerable, opposition, but the Reagan Administration official said it would be politically difficult to change regulatory jurisdiction.

Committee Chairman Greenspan the House Ways and Means on January 27, 1999 said the stock market was locked in, 'irrational exuberance.' He said, "The market would appear to envision substantially greater growth of profit. Corporate earnings are not keeping up with stock prices. He warned, "The expectation that national monetary authorities or international financial institutions coming to the rescue of failing financial systems and unsound investments because of excessive risk-taking can not happen."

Greenspan warned "U.S. expansion, faces distortion of incentives that occurs when the party that determines the level of risk receives the gains from it, but does not bear the full costs of the risks taken." He warned, "Interest rate and currency risk-taking, excess leverage, weak financial systems and interbank funding have all been encouraged by the existence of a safety net."

Let me give you an example of volatility of circuit breakers as a safety net. On September 10th and 11th 1998 Merc's second and third best days in exchange history with volume on both days surpassing two million contracts. The U.S. economy was growing in the final three months of 1998 at an annual rate of growth was a blistering 6.1 percent. The nation had invested in the stock market directly or through mutual funds and held three trillion dollars of the American public's money since world war two.

On September 2, 1998, Chicago Mercantile Exchange volume totaled more than one million in seventeen days! Product groups that set new all-time records included total futures (21,974,554), total options (5,814,968) interest rate products, (18,686,134) and equity index products (5,084,599). S&P 500 futures traded an all-time record 519,054 contracts in October, an increase of 83.8 percent above previous year levels.

Adam Smith stated that only rule in the stock markets should be the proportion between wages and profit they must remain the same and cannot be altered, at least for any considerable time, or by any interventions. "What all stocks do is bring the money value into a corporation, entitling the holder to a share of the company's success, through dividends and capital profits."

Now corporate earnings today were not keeping up with stock prices. The markets seemed not too affected by the riches or poverty, or the advancing or declining state of the society

The October 1998 broke the record for equity index products—3,795,118—includes a record 3,368,222 futures included in the records for standard-sized S&P 500 futures at 2,597,968, S&P MidCap four hundred futures at 23,591, Nasdaq 100 futures at 98,390, Nikkei 225 futures at 40,292, Russell 2000 futures at 24,429, S&P/BARRA growth futures at 296, and S&P/BARRA value futures at 368. Year-to-date trading in equity index futures on the Chicago Mercantile Exchange was up 74.5 percent. The second highest volume day in Chicago Mercantile Exchange history, with 2,002,124 futures and options contracts changing hands. .

Compare that to today. All stocks are is merchandise; production and they are making up wages of labor and profits. Sock markets secures the well being of the country functions best without manipulations.

The wealth and revenue of stock prices have accelerated too fast. Therefore, wages of labor have been continually increasing during the same period, yet in trade and manufacture profits have been diminishing. Today there is not enough merchandise sufficient to employ our people, companies have decreased their laborers, and that raises the profits of stock.

Greenspan "Safety nets generates moral hazard, and moral hazard distorts stimulus." Then why did he not stop these protections why did he continue to provide safety nets to support the financial system?

These interventions have cruelly oppressed corporation's expansion.
If it too difficult and dangerous for us to venture on something so desperately expedient as now the most calamitous thing will happen, millions may be sacrificed forever to the thousands of Investors who are more tenacious then practical.

The balance of power is at stack without attention and assistance. Our children will be weary of the struggle ahead, fettered with our weight, they will see their neighbors oppressed and conquered; and we are at the mercy of the conqueror. Ancients maintained, that in order to reach the gift of prophecy, a certain divine fury or madness was requisite, one may safely affirm, that, in order to deliver such prophecies as these, no more is necessary, than merely to be in one's senses, free from the influence of popular madness and delusion.

What lies in time are not very remote, and which reason foresees as clearly almost as it can do any thing. What expedient solution can be employed at present, even supposing stock market to continue in the most flourishing condition, and supports foreign enterprises? The stock market has so much exceeded, not only our own natural strength, but also even that of the greatest empires. This extravagance is the abuse to which we are presently exposed is the source of all the dangers in the nation. Although, on many occasions reaffirmed their preeminence by weathering, among other things, wars, natural disasters, and severe market drops.

If American debt were mostly due among us, it would be like transferring money from one hand to the other leaves the person neither richer nor poorer than before. Unfortunately, other countries possess a great share of our national funds and may in time occasion want to cash them in we would soon lose credit, and at the mercy of the holder of the country's debt, it will mortgage all its gains and will necessarily sink into a state of indolence and impotency.

Such are the inconveniences reasonably foreseen ahead. Not to mention, the numberless inconveniences, which cannot be foreseen, and which must result from so enormous a situation. It is difficult to guess at the consequences, never underestimate the nature of people and governments, which things to the length, and have turned around.

The Dow Jones Industrial has recorded spectacular increases since October 1987 the DJIA has grown at its peak 311% Since January 1995 the DJIA had grown 86%
* Year-to-Date Increase in Major Stock Indices S&P 500 Index Increase of 18%

NYSE Composite Increase of 18% Information. The market in 1999 kept rising while the trade deficit has soared to a high of $17 billion. In addition to the loss of markets for exports, and in currency fluctuations and the recessions overseas that has triggered a flood of products into the United States.

Again Greenspan before the Committee on Banking and Financial Services on October 1, 1998 called the stock market, "winnowing of inefficiencies," that security nets confuse reality. The following day October 2,1998 Federal Reserve Greenspan bailed out of LTCM a private hedged fund. "The failure of LTCM could have caused substantial damage to banks and investors and might have impaired the economies of many nations, including the United States." Greenspan told the banking committee of the US House of Representatives was the reason.

At an event in Boston Former Federal Reserve Chairman Paul Volcker questioned whether the U.S. central bank's "official sponsorship" of the $3.5 billion bailout of Long-Term Capital Management LP was proper. "Why should the weight of the federal government be brought to bear to help out a private investor? Volcker made clear the Fed's role in the matter. "It's not a bank." he said, the Fed's willingness to come to the aid of Long-Term Capital "has implications about public policies" for regulating hedge funds."

Chairman Greenspan response was "U.S. expansion faces distortion of incentives that occurs when the party that determines the level of risk receives the gains from it, but does not bear the full costs of, the risks taken, "Interest rate and currency risk-taking, excess leverage, weak financial systems, and interbank funding have all been encouraged by the existence of a safety net."

What must be done in such an emergency so long credit would again be revived? Governments will rather lend to the public immediately after taken a beaten. In order to carry on business, the debts from an honest bankruptcy: the government may find it best to discharge them. But if it too difficult and dangerous for us to venture on something so desperately expedient as now the most calamitous thing will happen, millions may be sacrificed forever to the temporary safety of thousands. United States government finances are in disarray and foreign enemies may be so astute as to discover this, threaten to interfere with the exceptional resilience of the United States stock markets.

Inextricably linked to human nature is self-preservation that appears essentially immutable and thus anchors its future to the past.

These circuit breakers hinder the stock markets natural process of production, distribution and consumption of merchandise. The stock market is one of the most important elements in our society and chief goal of politics. Why because all merchandise is stock made up of wages of labor and profits. The market secures the well being of the country and functions best without manipulations.

Governments should have nothing in common with the public economy except the obligations to make them sound. Experimenting into any stock market can never be the part of even though this intervention was an attempt for the public good.