

Bear Stearns conspiracy theories

Written by ReggieMiddleton

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This came across my email inbox and I thought I would share it with the blog.

A National Disaster

Rob Kirby

I was made aware of the existence of this article this evening. The author's name is John Olagues. Here is his bio:



John Olagues is the owner and principal consultant for [Truth IN Options](#) and a recognized authority on listed and employee stock options.

After graduating from Tulane University (where he captained the baseball team and set many of Tulane's pitching records), John applied his B.A. in mathematics and his competitive spirit to the real world of stock options.

In 1976, John became a member of the Pacific Stock Exchange in San Francisco trading and managing options positions in scores of different stocks. John joined with Blair Hull to create Options Research, the first service to provide theoretical options values to market-makers and

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to the general public. In 1980, he became a member of the CBOE, where he personally traded more options in more diverse situations than any other trader.

After reading the piece, I contacted Mr. Olagues and asked for permission to repost his article with his bio. Additionally, I was curious, so I asked whether or not anyone from the mainstream financial press had contacted him regarding an interview or giving his article greater exposure?

His reply to me:

You can do with it what you wish. I have not had any calls or emails from the main stream media as they will not criticize the FED or J.P. Morgan. I am saying the J.P. Morgan essentially stole \$30 billion from the tax payers through the FED and did a big favor for the short sellers, who probably made a few billion. From Cox to Bernanke, to Dimon and Cramer, they all played their roles.

This article is about how Bear Stearns stock was artificially collapsed so that illegal insider traders would make billions and J.P. Morgan would be paid \$55 billion of US tax payer money to shore themselves up - and buy Bear Stearns at bankruptcy prices.

Massive buying of puts and shorting stock in Bear Stearns

On March 10, 2008, the closing price of Bear Stearns was 70. The stock had traded at 70 eight weeks earlier. On or prior to March 10, 2008 requests were made to the options exchanges to open new April series of puts with exercise prices of 20, and 22.5, and a new March series with an exercise price of 25.

Their requests were accommodated and new series were opened for trading March 11, 2008. Since there was very little subsequent trading in the **call** with exercise prices of 20, 22.5 or 25, it is certain that the requests were made with the intentions of buying substantial amounts of the puts.

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There was in fact massive volumes of puts purchased in those series which opened on March 11, 2008.

For example: between March 11-14 inclusive, there were 20,000 contracts traded in the April 20s, 3700 contracts traded in the April 22.5s, and 8000 contracts traded in the April 25s. In the March 25s, there were 79,000 contracts traded between March 11-14, 2008.

Question: Why did the options exchanges not open the far out of the money puts for trading the first time that Bear Stearns stock hit 70, when the April and March options had far more time to expiration?

Certainly if the requesters were legitimate hedgers or speculators, their buying the March and April puts with 2 and 3 months to expiration was more reasonable.

Answer: The insiders were not ready to collapse the stock and did not request the exchanges to open the new series when Bear Stearns first hit 70.

Second Request and Accommodation

On or prior to March 13, 2008, an additional request was made of the options exchanges to open more March and April put series with very low exercise prices.

These new March put options would have just five days of trading to expiration.

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The exchanges accommodated their requests, knowing that the intentions of the requesters were to buy puts. They indeed bought massive amounts of puts. For example the March 20 puts traded nearly 50,000 contracts (i.e. contracts to sell 5 million shares at 20). The March 15s traded 9600, the March 10s traded 13,000 and the March 5s traded 6300 all on March 14 (the first day of trading of the new March series).

The introduction of those far-out-of-the-money put series in the April and March months immediately before the crash provided a vehicle whereby extreme leverage was available

to the insiders. In other words if an insider had \$100,000 and he knew that Morgan would buy Bear Stearns at 2, he could make 5-10 times more on the \$100,000 by buying the newly introduced March puts. This is so because the soon to expire far out-of-the-money puts were far cheaper than the July or October out-of-the-money puts. And that is why the illegal inside traders requested the exchanges to introduce the far out-of-the-moneys just days before the crash.

But this scenario has serious implications.

This means that the deal was already arranged on March 10 or before. That contradicts the scenario that is promoted by SEC Chairman Cox, Fed Boss Bernanke, Bear CEO Schwartz, Jamie Dimon of J.P. Morgan (who sits on the board of directors for the New York Federal Reserve Bank) and others that false rumors undermined the confidence in Bear Stearns making the company crash, notwithstanding their adequate liquidity days before.

“I would say that the deal was arranged months before but the final terms and times were not determined until maybe March 7-8, 2008.”

On March 14, 2008, the April 17.5s, the 15s, the 12.5s and the 10s traded 15,000 contracts combined. Each put gives the right to sell 100 shares. So for example, these 15,000 April puts gave the purchaser(s) the right to sell 1.5 million shares at prices between 10 and 17.5. Those purchasers expected to make profits on 1.5 million shares because they knew the deal was coming at \$2.00. That is the only plausible explanation for anyone to buy puts with five days of life remaining with strike prices far below the market price.

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So there were requests, during the period of March 10-13, to the exchanges to open the March and April series for buying massive amounts of extremely out-of-the-money puts, which were accommodated by the options exchanges. Did the Exchanges aid and abet the insider trading scheme?

We do not able to have a strong opinion on that idea.

Media statements of adequate liquidity

However, Reuters, on March 10, 2008 was citing Bear Stearns sources that there was no liquidity crisis and that there was no truth to the speculation of liquidity problems. And none other than the Chairman of the Securities and Exchange Commission on March 11, 2008 was stating that "we have a good deal of comfort with the capital cushion that these firms have".

We even had the "mad" Jim Cramer proclaiming on March 11, 2008 that all is well with Bear Stearns and that the viewers should hold on to their Bear Stearns.

On March 12, 2008, Alan Schwartz CEO of Bear Stearns was telling David Faber of CNBC that there was no problem with liquidity and that "We don't see any pressure on our liquidity, let alone a liquidity crisis".

The fact that the requests were made on March 10 or earlier that those new series be opened and those requests were accommodated together with the subsequent massive open positions in those newly opened series is conclusive proof that there were some who knew about the collapse in advance, while Reuters, Cox, Schwartz and Cramer were telling the public that there was no liquidity problem.

“This was no case of a sudden development on the 13 or 14th, where things changed dramatically making it such that they needed a bail-out immediately.”

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The collapse was anticipated and prepared for, even while the CEO of Bear Stearns and the SEC Chairman were making claims of stability.

What was the reason why Cramer, Cox and Schwartz were all promoting Bear Stearns immediately before its collapse? That will be speculated upon for years to come.

Cramer has admitted that "truth" was not his friend and that he manipulated stocks to influence investors behavior. Was this one of his acts? But no apologies from Cramer as he claims now that he was referring to keeping money in Bear Stearns Bank - not in Bear Stearns stock.

Proof of Insider Trading:

To prove the case of illegal insider trading, all the Feds have to do is ask a few questions of the persons who bought puts on Bear Stearns or shorted stock during the week before March 17, 2008 and before.

All the records are easily available. If they bought puts or shorted stock, just ask them why? What information did they have access to which the CEO and the SEC did not have? Where did they get the info? Why aren't Cramer and Cox, Dimon, Bernanke, Geithner, Paulson, Faber and Schwartz subject to a bit of prosecutorial pressure to get to the bottom of this? Maybe the buyers of puts and short sellers of stock just didn't believe Reuters, Cox, Schwartz, Cramer and Faber and went massively short anyway, buying puts that required a 70% drop in a week? Maybe they had better information than Schwartz or Cox? If they did, then that's a felony, with the profits made subject to forfeiture. **April 4, 2008 Congressional Hearings on the Bear Stearns Bail-out:**

I watched both sessions and drew the following conclusions: In the first session there were the following witnesses;

Bernanke

of the Federal Reserve Board,

Cox

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from the SEC,

Geithner

representing the New York Reserve Bank and an incidental player Mr.

Steel

from the Treasury. The only Senators that seem to be willing to attack these bankers were Bunning, Tester, Menedez and Reed. All the rest were useless and very respectful.

Absurdities:

All witnesses did their best to keep their stories consistent but they did slip up a bit. They all agree that the bail-out was necessary without any proof that it was. They all agreed that what caused the cash liquidity to dry up within one day was 'rumor mongers'. Apparently it is claimed that some people have the ability to start false rumors about Bear Stearns's and other banks liquidity, which then starts a "run on the bank". These rumor mongers allegedly were able to influence companies like Goldman Sachs to terminate doing business with Bear Stearns, notwithstanding that Goldman et al. believed that Bear Stearns balance sheet was in good shape. (Goldman, between March 11-14 warned their average customers that Bear Stearns stock was "hard to borrow" for shorting due to the fact that other customers had used up all of the stock available for borrowing for short sales). That idea that rumors caused a "run on the bank" at Bear Stearns is 100% ridiculous. Perhaps that's the reason why every witness was so guarded and hesitant and looked so strained in answering questions.

Loans to J.P. Morgan total \$55 billion from FED

The Private New York FED lent \$25 billion to Bear Stearns (described as the primary facility by James Dimon) and another \$30 billion to J.P. Morgan (described as the secondary facility by James Dimon).

So the bail-out cost was \$55 billion not the \$30 billion that is promoted. This was revealed at the second session of the Senate hearings in a James Dimon response to a question from Senator Reed. Who gets the \$55 billion?

J.P. Morgan received the money on a loan pledging Bear Stearns assets valued at \$55 billion. \$29 billion is non-recourse to Morgan. Effectively the FED received collateral appraised by Bear Stearns at \$55 billion for a loan to J.P. Morgan of \$55 billion.

“That's a loan to value of 100%.” If the value of the secondary facility of \$30 billion (\$29 billion of which is non recourse) is worth only \$15 billion when all is said and done, then J.P. Morgan has to pay back only \$1 billion of the \$30 billion received and keeps the \$14 billion the Fed loses. If the \$25 billion primary facility is worth only \$15 billion when all is said and done, J.P. Morgan has to pay \$10 billion of the \$25 billion received. If J.P Morgan can not pay, then the Fed loses the \$10 billion. If after all is said and done, the \$25 billion primary assets or the \$30 billion secondary assets are sold for more that \$25 billion or the \$30 billion respectively, the

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difference goes to J.P. No matter how you cut it, J.P. Morgan wins. If the \$55 billion assets turn out to be worth only \$20 billion when all is said and done, J.P. Morgan owes \$1 billion on the \$30 billion and the difference between \$25 billion and the value received on the primary facility.

“The best the FED can do: get their money back with interest. The worst they can do is lose \$25 -\$40 billion.”

The FED would have been far better to just buy the assets at Bear's and J.P. Morgan's valuation. **The question arises:**

Why didn't the FED just make the \$55 billion loan to Bear Stearns directly?

The FED received Bear Stearns assets valued by Bear Stearns as its only collateral for the 100% loan. I am sure that Bear Stearns would have guaranteed the full \$55 billion and would have advanced more collateral and accepted a 90% loan to value. Everything would have been just fine for Bear Stearns and the FED would have had a better deal. But the Bear Stearns stock would have gone up and all short stock sellers and all put buyers would have massive losses instead of massive gains .

“The bail-out is a great deal for J.P. Morgan, the illegal insider short sellers got a great deal. Bear Stearns stock holders and employees got a very bad deal and the sellers of puts sustained large losses.”

This shows, in my view, that J.P. Morgan and the FED were in collusion with the short sellers and put buyers .

~John Olagues~

Conclusion:

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While I'm saddened to learn what John has reported here, I'm not surprised. Personally, I now believe that the "take down" of Bear Stearns served as a façade to recapitalize none other than J.P. Morgan.

You see, J.P. Morgan's derivatives book is 2 – 3 times bigger than Citibank's – and it was derivatives that caused losses of more than 30 billion at Citibank [14.1 billion Q1/08 and 18.1 billion Q4/07]. So, it only made common sense that J.P. Morgan had to be a little more than "knee deep" in the same stuff that Citibank was – but how do tell the market that a bank – ANY BANK – needs to be recapitalized to the tune of 50 – 80 billion?

Now, it appears, we know the answer to that question.