Clues for 9/11 “Terror Trading”. Detecting “Informed Trading Activities” in the Options Markets

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Marc Chesney, professor at the Department of Banking and Finance at the University of Zurich, and his colleagues Remo Crameri and Loriano Mancini have published a new version of their scientific long-term project in econometrics, “Detecting Informed Trading Activities in the Options Markets.“ One more time the three scientists present evidence for insider trading related to the 9/11 terror attacks.

The new version of **“Detecting Informed Trading Activities in the Options Markets,“** that was made available to the public on April 7, 2014, can be downloaded as a PDF document here.

A general introduction into the work by Chesney et al., that I wrote for Asia Times Online under the headline “Insider trading 9/11 … the facts laid bare,” can be found here.

Moreover, you can find here an interview that I’ve also conducted for Asia Times Online with Paul Zarembka, professor for economics at the State University of New York, in which he discusses the findings of three scientific papers on the 9/11 insider trading issue, amongst them the work by Chesney and his two colleagues.

When asked about the difference between the latest version of that work and the ones before, Paul Zarembka replied:

> *The difference in the present version of the Chesney, et al., paper from the 2010 and 2011 versions is that the airline sector is highlighted in the main paper, while a Supplemental Appendix is now used to focus on the financial sector, and some other firms. In other words, the discussion is now, for the most part, split and the main paper is shortened thereby. The methodology used and data reported earlier are unchanged, but some important new data are provided for the financial sector that were not reported earlier.*
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> *Within the airline sector over the period 1996 to 2006, as before, eight of fifteen cases with evidence for informed trades relate to the events of September 11, 2001. Within the financial sector the earlier evidence remains, but now in the Appendix. There is, however, more extensive analysis to cover the period of the 2007-2009 financial meltdown. In fact, lots of significant evidence is obtained for that period. The expanded list of firms analyzed includes AIG, Bear Stearns, Fannie May, Freddie Mac, Goldman Sachs, Lehman, Wachovia, and Wells Fargo, along with HSBC and five centered in Europe. The Appendix could be converted in the future to a regular stand-*

alone paper focusing on finance.

One useful addition in the current version (due to an anonymous reviewer's suggestion) is to examine cases of unpredictable natural disasters in order to ascertain whether the methodology employed would report informed trades even then. If so, the methodology would be called into question. The results actually confirm the methodology because informed trades were not, in fact, in evidence. The five events considered were central European floods (2002, with AMD as an affected company with option data available), hurricane Katrina (2005, ExxonMobil), eruption of Eyjafjallajökull (2010, FedEx), Deepwater Horizon oil spill (2010, BP), and Fukushima earthquake (2011, BP again).

As to presentation, the introductory discussion is considerably longer, most probably reflecting comments received on what must be considered a controversial paper. In the Appendix, the only reference is to Allen Poteshman's 2006 article in the Journal of Business. The main paper includes many more references, but it misses W.-K. Wong, H. E. Thompson, and K. The, "Was there Abnormal Trading in the S&P 500 Index Options Prior to the September 11 Attacks?", Multinational Finance Journal, Vol. 15 (2011), no. 1/2, pp. 1–46.

If we want to go underneath the empirical results, I reported in my own piece in 2011 ("Evidence of Insider Trading before September 11th Re-examined" — see here) that we now have more evidence about the put options on American Airlines on September 10th. Basically, the issue is how to reconcile evidence of insider or informed trading in that stock against information the U.S. government released in 2009 as to the responsibility of one particular options newsletter. I mention this point to remind ourselves that econometric work deals in probabilities (even very high or very low), while there are other avenues for investigation.

In any event, Chesney's work is very significant and deserves the most careful attention. Given the research on option purchasing beginning with Poteshman's 2006 work on American Airlines and United Airlines before September 11th, we should be seeing detailed reactions to the evidence being proffered. We have not. Now, Chesney, et al., are adding on evidence for the 2007-2009 financial meltdown.
