Jon Stewart's Epiphany: Has a Comedian Just Saved America?

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As testimony to how Orwellian life has become under the outrages of Wall Street hubris, last week saw a comedian, who poses as an anchor on a fake news show, grab the reins of the Wall Street investigation from the actual investigators in Congress.

Either Jon Stewart is the smartest man in America or he has incredible instincts. In a week's time, he has zeroed in, like a heat-seeking missile, on the core of Wall Street's malady. How insightful of Stewart, host of Comedy Central's "The Daily Show," to rationalize that the core of Wall Street's corruption might well be the same core that it has drawn the darkest curtain around: trading.

Stewart is the son of an educational consultant mother (Marion Leibowitz), physicist father (Donald Leibowitz) and trading technology guru brother (Larry Leibowitz) an executive at the New York Stock Exchange. He's got a smart family and he's equally smart, advancing the national debate on a comedy channel.

After a week of explosive commentary and video clips of questionable reporting at the cable business network, CNBC, Stewart interviewed Jim Cramer on Thursday, March 12. Cramer hosts CNBC's "Mad Money" show which promotes itself as an advocate for the small investor while, at the same time, suggesting lots of buying and selling of specific stocks. Stewart used the highly anticipated interview to show a devastating clip revealing Cramer to be the embodiment of the market manipulators that he rails against on his show. Acknowledging on the clip that he would never say something like this on TV, Cramer states:

"You know, a lot of times when I was short at my hedge fund and I was positioned short, meaning I needed it down, I would create a level of activity beforehand that could drive the futures. It doesn't take much money."

Allow me to translate:

You know, a lot of times when I was making a large bet that prices would decline in a specific stock or bond or derivative when I worked in the largely unregulated world of private money called hedge funds, and I needed to give that decline a little unseen assistance to make my bets profitable, I would go into the futures market to trade. That's because I could put down as little as 4 to 10 percent of the money I needed for the trade and borrow the balance in what is called a margin account.

The academics and economists (none of whom ever worked a day on Wall Street) have been telling us in OpEds and speeches and testimony before Congress that the crumbling Wall Street structure results from bundled subprime mortgages, collateralized debt obligations, credit default swaps, and asset backed securities.

Trillions of dollars of taxpayers' funds have been spent on the premise that these toxic assets are the problem. The fate of a nation has been staked on that analysis: that if we get these assets off the balance sheets of the major firms, the credit spigots will begin to flow once again, the banks will once again trust each other and lend to each other, and investors will resume buying stocks and bonds with their confidence in the system restored.

Stewart's weeklong commentary and clips helped to dramatically expose this logic as bogus. None of the toxic instruments would have grown to a problem capable of collapsing the country's financial system if their *trading* had been regulated, transparent and fairly reported on by mainstream media. The security instruments were never the problem; how they were *traded* was the problem. For example, the mortgage and debt securities were, in reality, junk bonds but they were tradedas triple A. They were not traded on an exchange where price discovery would have shown them to be junk bonds, they were traded in an opaque over the counter market. In the case of credit default swaps, they were traded in a market created by the very firms who needed to hide for as long as possible (while executives reaped windfall compensation and bonuses) the dubious pricing of the securities and gargantuan amounts being issued. (See CounterPunch column "How Wall Street Blew Itself Up.")

Wall Street is supposed to have an early warning system that if something is amiss it will self correct in time to avoid a collapse of the system. That early warning system is known as price action. In other words, the *trading* price of Citigroup, Merrill Lynch, Lehman Brothers, Bear Stearns, Freddie Mac, Fannie Mae and AIG should have begun a downward trajectory years ago as these firms loaded up on leveraged junk. There is only one possible scenario, in my opinion, to explain why this did not happen: *trading* in the market was rigged. Thanks to Jim Cramer, the public now knows how easy it is to get stock prices to move up or down. (As one more example, see "Wall Street Powerhouses Invested Alongside Madoff.")

To be a fair marketplace, the trading price of stocks and bonds must represent the composite wisdom of all market participants who have the same opportunity to ferret out information from public sources. When trading is internalized at the big Wall Street firms (meaning they are allowed to match customer stock orders in-house), when they are able to create and clandestinely operate their own trading venues off the radar screens of the regulators, when they are able to create offshore vehicles like Structured Investment Vehicles to hide bets gone bad, there is no longer any composite wisdom. There is only dumbed down information which the public possesses from CNBC and the superior information available to those operating inside the clandestine system. (See Maria Bartiromo and the Co-Branding of CNBC and Citigroup.)

The big Wall Street firms that taxpayers are bailing out even gobbled up some of the largest specialist firms. Those are the folks who are required to maintain fair and orderly markets on the regulated stock exchanges. But here's what the specialists are really doing, according to charges disclosed on March 4, 2009 by the Securities and Exchange Commission (SEC):

> "…from 1999 through 2005, the firms violated their basic obligation as specialists to serve public customer orders over their own proprietary interests.

> As specialist member firms on one or more of the regional and options exchanges, the firms had a duty to match executable public customer or 'agency' buy and sell orders and not to fill customer orders through trades from the firm's own accounts when those customer orders could be matched with other customer orders. However, the firms violated this obligation by filling orders through proprietary trades rather than through other customer orders, thereby causing millions of dollars of customer harm."

The $70 million in disgorgement and penalties the SEC charged 14 specialist firms (some of which are owned by Wall Street powerhouses like Goldman Sachs and Citigroup) is now effectively coming out of the taxpayers' pocket since these are two firms enrolled in the taxpayer cash for toxic asset trash bailout bonanza. In other words, the public investor is now paying back the money that was stolen from the public investor in the continuing Wall Street saga of heads I win, tails you lose. Is it any wonder it takes a comedian to deal with this stuff.

The speed at which Congress begins daily sessions investigating *trading* of both toxic and non toxic securities will determine the speed at which this country begins to rebuild from the ashes.

After the 1929 crash and as the nation entered the Great Depression in the early 1930s, the Senate convened hearings by the Committee on Banking and Currency that peeled back month after month from 1932 to 1934 previously impenetrable layers of *trading* fraud. Each layer of fraud opened a window into the next layer. The hearings did not focus on assets, toxic or otherwise, it focused on the *trading* of assets: how Wall Street created dark pool operators (today's hedge funds) to trade on inside information and manipulate prices; how some of the most respected men on Wall Street had participated in trading frauds; how some of the largest firms were secretly manipulating stock prices; how respected business columnists were taking bribes from Wall Street players to move trading prices.

I've often pondered just how it was that every large brokerage firm had the same idea at almost the same time in the early 1990s: to put a TV set airing CNBC in every stockbroker's office. The managers came around and offered the broker a deal they couldn't refuse: a deeply discounted price on the TV and the firm would install it hanging from the edge of the ceiling so it wouldn't take up precious desk space. Out of 55 brokers in my office at the time, only myself and one other broker declined. Can you think of any other industry that wants its workers sitting around watching TV instead of working? Unless, of course, what CNBC is telling brokers to buy and sell is actually considered part of the work day by the Wall Street masters.

As you ponder that, consider this excerpt from testimony given at the Friday, June 3, 1932 Senate hearings:

> William A. Gray, Counsel to the Committee: So that the committee may understand the matter which I am now going to present, permit me to say that I am going to show by Mr. Lion himself that he is a publicity man, and that for a period of three years he was acting for numerous brokerage houses in the city of New York, that he furnished through various journals, including radio speeches, publicity for certain stocks, pools which were then being operated by the brokerage houses, he being paid for such by cash and by being given calls on the particular stocks in questions, at prices that he could sell them to his advantage, the brokerage house of course giving him credit for same in an

account which he carried and settling with him the same as they would settle with any other person who had actually bought and sold, he not being required to put up any cash at all. Now, Mr. Lion, please give us your full name.

Mr. Lion: David M. Lion…

Mr. Gray: What is your business?

Mr. Lion: Financial publicity.

Mr. Gray: How long have you been engaged in that business?

Mr. Lion: Five years or more.

Mr. Gray: Prior to engaging in that business and for the past five years have you at any time conducted a paper of your own?

Mr. Lion: Yes.

Mr. Gray: What was the name of that paper?

Mr. Lion: The Stock and Bond Reporter…

Mr. Gray: How long did you continue the use of the radio for the purpose of disseminating information about stocks?

Mr. Lion: I used it all of 1929…

Mr. Gray: Now, you did not do your own radio talking, did you?

Mr. Lion: No, sir.

Mr. Gray: What was the name of the man you employed to do your radio talking?

Mr. Lion: I employed William J. McMahon…

Mr. Gray: Who is he?

Mr. Lion: He was an economist…

Mr. Gray: Each of his talks was devoted to a particular stock, wasn't it?

Mr. Lion: No.

Mr. Gray: Sometimes only one stock?

Mr. Lion: Yes, sir…

Mr. Gray: But when he ended up his talk as a usual thing he referred to a particular stock and boosted it. That is true, isn't it?

Mr. Lion: Yes, sir.

Mr. Gray: And he was a salaried man on your staff for that purpose, wasn't he?

Mr. Lion. Yes, sir.

Jon Stewart has opened the floodgates. Let the hearings begin.

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