ASX TRADING ISSUES BLOG

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Contact: asx.trading.issues@gmail.com

ASIC COMPLAINT 2014-1

Re: Systemic ASX Trading Issues

CUDECO CASE STUDY

Trading Anomalies over 4 Years of Trading

Published August 29, 2014

DISCLAIMER: All information presented as research has been sourced from broker trading records and registry records. While the author considers the data to be accurate and free from transcription errors, no guarantees can be given on conclusions and/or commentary provided. Interested readers are encouraged to do their own Due Diligence and to make up their own minds in regard to the causes of any trends present in trading data.

EXECUTIVE SUMMARY

The current complaint uses CuDeco Limited as a Case Study to summarize research findings encompassing 4 years of trading on the ASX. The recent Senate Inquiry used the Commonwealth Bank as a case study to assist with identifying chronic problems in the banking industry and so CuDeco has been provided as a case study to help convey the magnitude of systemic trading issues that impact the Australian share market.

The complaint is prompted by questionable patterns of trading with CuDeco continuing to take place, and to demonstrate that chronic trading anomalies that are replicated in stocks right across the ASX, present as a clear and present danger to the fabric of Australia's financial system. A compromised share market places at risk the private investments of Australian citizens and their share of the $1.3+ trillion national superannuation pool which represents a particularly attractive target for price rigging activity that is designed to strip wealth from the system.

While the regulator has dismissed all trading issues presented to it, there can be no question that price rigging activity is continuing to take place and that a 4 year perspective on CuDeco trading presents as an indictment of both the system of trading and the system of regulation.

Research has demonstrated that trading issues are very definitely systemic in scope and that unfair levels of control over the market are facilitated by:

- the use of automated trading algorithms;
- the use of manipulative short selling practices;
- opaque dealings that encompass all aspects of the market's operations including the system of trading, settlements, custodial management of accounts and securities lending;
- a market that is structured to advantage one class of investor over all others through the co-location of computers, trading concessions and superior access to information; and
- a regulatory and supervisory environment that provides tacit approval for price rigging activity.

The above assertions translate to a share market where price rigging is not only widespread but it is effectively sanctioned by the current approach to market regulation and by the Board of the ASX. The consequences are far reaching and help to explain the current problems faced by the Australian economy. The issues are demonstrated unequivocally by the following research documents concerning CuDeco Limited, and by published research findings concerning algorithmic trading trends, share price manipulation issues and the theory of regulatory capture.

LINKS TO CASE STUDY DOCUMENTS

- CuDeco Trading on July 29, 2014
- CuDeco Case Study - Part 1: Analysis of Trading between August 18 and August 31, 2010
- CuDeco Case Study - Part 2: Anomalous Trading Trends over 4 Years of Trading
- CuDeco Case Study - Part 3: Anomalous Trading Issues Quantified

LINKS TO RESEARCH PAPERS

- Overview of Research
- Research Papers 1 to 9 Concerning ASX Systemic Trading Issues

The Directors of CuDeco are well aware of the manipulation of their company's shares and has attempted to access relief under the provisions that govern short selling. On three occasions CuDeco has applied for an exemption from short selling yet all requests have been flatly refused.

CONTEXT

The writer has been, and still is, a CuDeco shareholder and it was an apparent disconnect between company success and the CuDeco share price that prompted initial research into broker trading data and CuDeco registry data. The research began in 2010.

The research has been a journey of discovery with the findings having far reaching consequences for not only CuDeco shareholders, but for all investors on the ASX.

The initial research attempted to establish if there was something fundamentally wrong with the company and its disclosures in relation to Rocklands, or if the disconnect between company success and the share price was related to something else.

Overwhelmingly, the latter has been the case and the 'something' else involves extensive market rigging activity. The 'something else' also prompted research into other ASX companies to establish whether market rigging was CuDeco centric, or whether it was also happening elsewhere. Research into other companies confirmed that what was taking place was indeed systemic, as the mechanisms for market rigging relate to algorithmic trading and manipulative short selling that is used in all trading concerning the major stocks, if not in a majority of trading. The system of trading on the ASX is so entrenched and so compromised that it receives regulatory approval, possibly because it also occurs in all markets around the globe (which the ASX is modelled on), and it represents too big an issue to address. There is also the issue of regulatory capture that is likely to be playing out as well.

Highly dubious trading and registry data has driven the research but that is not to say that the company has not been confronted by major problems, as all enterprises experience when attempting to develop significant, value-adding projects. The company would be the first to admit that it hasn't done everything perfectly, and with the benefit of hindsight, there are no doubt aspects of development that it would have approached differently if given a second opportunity. Lengthy delays which have resulted in failed timelines have not necessarily been the company's fault, but nevertheless they have had to deal with all issues as best they could. It comes with the territory and companies either prosper or fail based on what management is actually able to achieve.

Share traders exploit the circumstances surrounding companies to make money as news, both good and bad, often leads to market volatility. Crucially, however, news doesn't make unlawful trading lawful but it does tend to deflect attention away from trading behaviours. For ASIC to use excuses relating to a company's circumstances to refuse to investigate legitimate trading complaints is clearly an abrogation of their regulatory duty. Illegal trading activity remains illegal trading activity irrespective of any news event that accompanies it.

In terms of CuDeco's performance over the journey, two stark realities stand out from all of the confusion generated in the public domain including public forums:

1. Rocklands is fast approaching becoming a major, long life mining enterprise, and
2. Sophisticated investors have taken up a large slice of ownership in the project at under-valued prices based on fundamental considerations and likely cash flows when production commences.

Both realities provide an interesting backdrop to assess the trading issues that have enveloped the company for a period well in excess of the 4 years covered by research.

A decision was taking in April 2011 to make the findings of research available to other shareholders through an internet blog. After all, shareholders are entitled to know of issues that critically affect share price movements to a greater extent than company achievements and fundamental value considerations. Other ASX investors also need to be aware of systemic trading issues so that they can review their commitments to a market where sanctioned price rigging can and does occur.

The initial motivations for providing transparency are outlined in the following links back to the original blog.

- Why Blog?
- The Current Situation April 2010
- Blog-Content

Certainly, the journey has led to revelations about the share market that have far reaching implications for all.

FURTHER INFORMATION

The previous links provided in the Executive Summary provide access to all relevant research that supports all findings in relation to systemic ASX trading issues

The sections that follow (please scroll down to Pg. 5) provide some background information in relation to short selling, together with an overview of 4 years of research and the implications for the Australian financial markets.

ASSISTANCE PROVIDED BY CUDECO LIMITED

Although the research has been undertaken privately and independently, when approached about the research project four years ago, CuDeco willingly agreed to provide access to their Company register. They were just as concerned about manipulation issues as their shareholders and were anxious to find out what was taking place with trading.

CuDeco is not alone with their concerns regarding market manipulation. Kingsgate Chairman Ross Smyth-Kirk voiced concerns as far back as 2007 <LINK> and again in December 2013 <LINK> and was censored by the ASX for doing so. It needs to be borne in mind that two ASX Directors had to stand down because of illegal short selling activity in the US suggesting a culture of market rigging and the suppression of information. Starpharma CEO Jackie Fairley has also voiced concerns about short selling and the targeting of her company in a program on TV with ABC commentator Tiggy Fullerton <LINK>.

Certainly, companies have enough on their plate without having to guard against manipulation, particularly when there is a regulator who is meant to be performing that role in the national interest.

SHORT SELLING

Short selling Issues have been presented to the regulator and they have been dismissed with no clarifications provided. A key issue is that it is the holdings of shareholders held under custodial arrangements that facilitate short selling, where shares are lent out usually without their direct knowledge. Fund managers directing shares back and forth between nominee holdings held by custodians then enables trading churn to occur at high levels, and prices to be unfairly managed in the process. It is the custodians and the fund managers that derive a benefit mostly at the expense of genuine holders, and companies such as CuDeco have their share prices forced to under-valued levels so as to create corporate opportunities.

There have been days of high volume churn where short sales have comprised 60% , and even up to 91% of all selling, with the sales going to trading affiliates. Trading churn results in control being maintained over the shares so that short covering is conveniently arranged in either on-market trading or through off-market adjustments that avoid price discovery. There should have been an immediate trading halt following such days, and the trading in the stock fully investigated for fraud and manipulation. Instead, the company has been advised that even extreme examples, such as the above, are regarded as normal trading.

The response by ASIC is both incomprehensible and irresponsible, and it demonstrates a complete disregard to what should constitute normal trading. Clearly, all trading should involve genuine buyers and genuine sellers at all times. The ASIC response also shows no regard to Corporations Law which attempts to guard against market manipulation. Short selling such as the above, can only occur through collusive wash trades, and it results in the setting and maintenance of artificial prices; activities that are defined as illegal under the Act.

Short selling issues are comprehensively assessed in Research Paper 8 Section 8.2.6 and the Appendix. <LINK>

COMPANY REQUESTS FOR AN EXEMPTION FROM SHORT SELLING

CuDeco has made requests to ASIC on three occasions to be granted an exemption from short selling. The requests have been based on provisions in the legislation governing short selling that allows companies to do so. The requests have all been turned down.

As a minimum, exploration companies should be excluded from short selling as the practice is clearly being abused. Forced under-valuations make companies vulnerable, particularly when attempting to source capital to create and/or grow their businesses. It stifles job opportunities for Australians, limits tax revenues for the government, increases the dependency on government hand-outs and it results in loss of ownership over sovereign assets. The current situation provides zero benefits for Australian companies or Australian citizens.

if normal trading, from the regulator's point of view, can legitimately encompass activity that to a reasonable person would be regarded as manipulative or fraudulent, (as declared by the Corporations Act) then the situation should be clarified in the interests of confident and informed investors. Certainly, many Investors may choose to avoid the share market altogether. Australian workers should also be given more choice, as pending full clarification, many may not be happy with their compulsory superannuation contributions being directed into a share market where price rigging is sanctioned. Provisions in relation to self-managed super and self-managed retiree accounts would also require adjustment.

ASIC claims it is not a law reform body, but the reality is that it is not an effective regulator either, as revealed by the CuDeco Case Study and research into other ASX companies. The recent Senate Inquiry has shown the way forward. ASIC should again be called out on gross negligence and incompetence, and measures put in place to ensure that markets do trade fairly and transparently at all times. The proposed Royal commission should also proceed with a charter to look at all issues concerning the regulation of the Australian financial markets.

OVERVIEW

The complaint draws attention to a series of manipulative trading events concerning CuDeco beginning with trading on July 29, 2014 immediately following an announcement by the company. The announcement was in relation to an ore stock pile being established in preparation for the processing of direct shipping ore and eventual mine commissioning.

The announcement was met by the placement of large sell orders in a similar fashion to the selling orders on August 18, 2010 that helped to generate confusion and panic. The selling appeared motivated by a desire to negate any enthusiasm arising from the announcement rather than to genuinely dispose of shares.

The market didn't panic and the balance of a large order was subsequently withdrawn. It marks yet another manipulative event in a long history of manipulative events that have been associated with trading in CuDeco.

Details concerning July 29 Trading are outlined in the following link.

- CuDeco Trading on July 29, 2014

The trading activity on July 29, 2014 represents just one more example of the type of questionable behaviour that has taken place with CuDeco over several years, and which have been documented in Case Studies 1, 2 and 3. The impact on the company and its shareholders needs to be assessed along with all trading irregularities that have occurred over the extended period of time. Trading anomalies have been a consistent theme and point to the unfair corporate targeting of the company. The targeting is reflected by a largely artificial market in terms of price undervaluations, and where perceived bad news has invariably resulted in price falls and good news has all but been ignored. It suggests strong levels of price controls over the entire period through sanctioned price rigging activity involving collusive algorithmic trading, manipulative short selling and highly unorthodox custodial share flows conducted away from the lit market.

TRADING IRREGULARITIES OVER A 4 YEAR PERIOD

The complaint primarily concerns trading issues although it is helpful to observe the impact of dubious trading activity on prices. Significant periods where unfair controls over prices have been a feature of trading include:

A. January 2010 to May 2010

A continuous stream of positive news delivered by the company in regard to Wilgar was all but ignored by the market (i.e., The Wilgar prospect is a uranium, rare earths, precious metals discovery additional to the Company's main copper project referred to as Rocklands).

B. August 18, 2010:

A major share price slump followed the release of a resource upgrade on August 18, 2010. ASIC's view in respect to share price falls was that the JORC compliant resource disappointed the market and therefore caused sharp price declines. In the light of all relevant information, the ASIC explanation is simplistic, inaccurate, and for the most part, inappropriate, as trading issues were dismissed without a proper investigation of the trading relationships between major players. It resulted in highly manipulative trading activity being sanctioned without question.
The full circumstances concerning trading following the August resource announcement have been made available to the Financial Services Inquiry as a Case study that showcases the regulatory response to highly dubious trading that resulted in artificial prices. Critically, over 52 million buys and sells over a 10 day period didn't make it to the register, many of which are likely to have been illegal wash trades. An updated version of the Case Study is available from the following link.

- CuDeco Case Study - Part 1: Analysis of Trading between August 18 and August 31, 2010

C. November/ December 2010

Prices following August 18, 2010 didn't rebound from a grossly over-sold position. They were maintained at a low level for two months up until a major investment fund (i.e., the M&G Group) moved decisively to secure a substantial shareholding in Cudeco.

The acquisition of shares by M&G began with an opportunistic cheap placement from the Company announced on September 23, 2010, and was followed by on-market buying late October, and then throughout November and in the first half of December. The on-market buying was characterized by collusive trading churn between brokers acting for M&G and other brokers, with turnovers pushed considerably higher on the days that accumulation took place. The manipulative trading churn was similar to what occurred during August and also suggests large volumes of wash trades that didn't impact the register. The churn issues were raised as a complaint to ASIC but were subsequently dismissed without explanation <LINK: ASIC COMPLAINT 2013-2>.

D. January 2011 through October2012

Price capping behaviours were evident throughout all of 2011 and 2012 as major levels of project funding were achieved with considerable progress also made in transitioning Rocklands from an exploration project to a mining project.

E. November 2012

Further highly dubious trading was associated with an attempted placement in November 2012 pitched at $4.30 to raise $30 million from sophisticated investors. The share price was sold down from a high of $4.83 immediately before an announcement concerning the placement, to a low of $3.84 following the announcement. The company withdrew the placement offer and then dealt with Sinosteel on November 27 who took shares at $4.50 in lieu of cash payments for the supply and installation of power generation equipment costed at $34.2 million. Adding further to suspicions regarding trading and the corporate targeting of the company was the fact that open short positions increased from 1.7 million shares before the ill-fated placement announcement, to 6.5 million shares at the end of November following the deal with Sinosteel.

F. January 2013 through May 2013

Following subdued trading after the aborted placement the share price came under pressure from January through May 2013 through listless trading where prices fell from $4.30 to $3.70. It coincided with the company conducting preliminary excavation works and gaining even greater clarity about the nature of mineralization. JORC estimates have been conservative because of difficulties in being able to accurately assess large quantities of high grade supergene mineralization and native copper.

G. June 2013 through August 2013

The period June 12 through August 21, 2013 saw M&G conduct a fire-sale disposal of its major shareholding. The sell-down came at a critical period in the transition of the company from explorer to miner as it was heavily engaged in mine construction and excavation in preparation for mining. By traditional standards the company was at a stage in the exploration/mining development cycle that has been the catalyst for price appreciation not share price falls. Also, M&G clients with funds under management were invested into the company at much higher prices than were achieved with the fire-sale approach to selling.

It was the timing, but also the manner of the sell-down, that attracts suspicion particularly as the selling appeared to be front-run by informed short sellers. The selling culminated on August 21 where unprecedented levels of short selling set the scene for a large after-market crossing to complete the M&G selling.

The low point associated with M&G's selling (i.e., $1.37) compares to $4.40 at the beginning of January (a 69% slump) and $3.30 at the beginning of June (i.e. a 58.5% slump). Importantly, the fundamentals of the company remained unchanged however corporately it has been made vulnerable particularly in the event that further financing is required.

The sell-down by M&G ignored all of the usual steps taken by major financial institutions in finding a buyer for a valuable and strategic stake in an emerging producer; particularly as new mines coming on stream without sovereign risk have become a rarity in recent decades. The difficulties have been due to being able to find economically viable mineral deposits in stable political environments in the first instance, and then working through stringent environmental controls and complex approval pathways in order to be able to build new infrastructure and commission new projects. However, any short selling interests with connections or affiliations with M&G would have done exceedingly well throughout the sell-down and should be the subject of a forensic investigation. ASIC had no concerns with issues presented to it concerning the selling as per the following links <Short Selling on August 21, 2010> and <ASIC Complaint 2013-4>.

H. November 2013 through August 2014

Price capping behaviours continued after M&G had departed as a substantial shareholder and remained in place up until the current time. Strangely, the removal of overhead selling by M&G has not resulted in a price re-rating even with the project very substantially de-risked and about to approach cash flow generation through DSO sales prior to mine commissioning.

July 29, 2014 has been noted as a manipulative event but dubious trading also occurred early June 2014 immediately prior to a significant announcement concerning the procurement of a $75 million line of credit. The financing option was expected to carry the company through to cash generation from direct shipping ore (DSO) and then from full scale mining. The share price averaged $1.84 for the two months preceding the announcement yet was sold down by 9.1% in the two days prior. The major de-risking announcement following the sell-down then had zero impact on the share price.

COUNTERINTUITIVE TRADING BEHAVIOURS

The August 18 resource announcement has been used to justify a share price slump immediately upon its release and to explain constrained share price movements ever since. Yet all announcements that have helped to clarify confusion about resource estimates or helped to de-risk the company (e.g., success with funding) have all been met by muted market responses.

Clarifying announcements about the resource have included:

- bulk trial results on August 26, 2010 demonstrating grades well above the resource model;
- a very substantial resource upgrade announced on May 25, 2011 resulting from a relatively small amount of additional drilling and re-interpretation of the resource by a second group of consultants;
- extensive bulk trial results on June 3, 2011 again demonstrating robust grades for the main component of the ore body;
- clarification as to why all mineralization has not been captured by diamond drilling and RC drilling;
- numerous additional discoveries both at depth and separate to the main ore body;
- grades higher than the JORC model and pockets of ore not included in the JORC model revealed upon initial excavation in preparation for mining;
- the July 29, 2014 announcement concerning the initial stock pile for mine commissioning.

De-risking announcements that for the most part have also resulted in minimal impact on the share price have included:

- a 20 year off-take and financing agreement being struck with China Oceanwide, even though initial planning for mining is based on just 10 years of operations;
- several substantial placements to assist with the funding of development, mostly struck at a premium to the share price; a rare event in an industry where placements are almost always done at discount prices;

- securing ownership over port and rail facilities for the despatch of concentrate to overseas markets that are likely to lead to additional revenues when the facilities are also made available for use by others;
- EIS approval for a mining proposal that reflects management's expectations for mining output based on internal studies and trial mining, rather than conservative JORC estimates;
- mining approval from the QLD Government (i.e., Nov 24, 2011) for a 30 year mining operation which portends a much more significant project than that suggested by initial plans for 10 years of mining;
- Sinosteel and other contractors seeking exposure to the company by accepting shares in lieu of cash for works and equipment relating to mine construction and willing to pay a premium to do so;
- cornerstone investor China Oceanwide seeking FIRB approval for gaining increased exposure to Rocklands.
- securing a line of credit for $75 million to assist with final development expenses before cash flow starts.

ANOMALOUS TRADING AND REGISTRY DATA

Price capping behaviours or deliberate sell-downs at critical times has been a continuous feature of trading. When broker trading data is reconciled to the company register, trading is seen to be characterized by chronic anomalies which have been documented by research available from the following link:

- CuDeco Case Study Part 2: Anomalous Trading Trends over 4 Years of Trading

The anomalies relate to periods where:

1. substantial volumes of buying and selling in the 'lit' market haven't made it to the register; and
2. substantial levels of share flows have occurred on the registry which have greatly exceeded the buying and selling that has taken place.

Both trends do not identify with genuine trading and reveal a seemingly haphazard system of trading and settlements. It is extremely difficult to reconcile what takes place in the lit market to what occurs on the register in terms of genuine changes of ownership, and it provides enormous flexibility to engage in price rigging activity.

The first trend suggests large volumes of trades washing back and forth between entities that are likely to be colluding with their trading. Diminished registry share flows can legitimately result from the daily netting of trades, with only the net balances from buying and selling making it to settlement and registration. However the netting of trades can also result in the camouflaging of large volumes of illegal wash trades.

The preponderance of illegal wash trades that can be a feature of daily algorithmic trading churn has recently been brought to attention by revelations out of the US <LINK>. Traders have admitted that over half of the trades on the Chicago Futures exchange have been illegal wash trades. ASIC rarely conducts forensic audits of dubious trading activity, if at all, and so large amounts of illegal trading are likely to be also occurring on the ASX, as trading systems often replicate what takes place on Wall Street. Wash trades cannot be detected by simply observing order flow. It requires knowledge of the identities responsible for the buying and selling which is made all the more difficult when orders are distributed across multiple brokers.

A pointer to wash trades taking place is that in crucial trading periods, after large volumes of trades are netted out then collated for settlement and registration, very few trades impact the register. Also, minimal changes to beneficial ownership occur, particularly by groups of sophisticated investors whose holdings are held in institutional accounts. It means that collusion between nominee trading account owners is likely to be a strong element of trading and/or fund managers are simply switching shares back and forth between nominee accounts under their control.

The second trend suggests off-market adjustments to holdings either to manage securities lending exposures, without price discovery, or to re-establish holdings back into original ownership after manipulative, collusive trading between affiliates in the lit market. The transfers tend to be associated with the activities of custodians working behind the scenes with no public knowledge about their activities.

The extent of both types of anomalies over 4 years of trading is documented in the following link:

- CuDeco Case Study Part 3: Anomalous Trading Issues Quantified

THE CUDECO REGISTER

All of the trends noted above have coincided with sophisticated investors gaining greatly increased exposure to the company. Based on the Top 20 Shareholder Lists in annual reports, institutional ownership started at 6% in 2006, increased to 18% by 2009, peaked at 52% in 2012 and then levelled off at 46% following the M&G sell-down of its substantial shareholding.

The negativity that follows CuDeco, whether it be in the media, in disparaging comments made by the regulator, in comments made in public forums or even within broker circles and by financial commentators, needs to be contrasted against the reality that sophisticated investors with access to the highest quality information have greatly increased their stake in the company.

Importantly, the entire focus of research has been centred on data issues where algorithmic interactions between buyers and sellers together with the meddling in the back offices of brokers and custodians have resulted in chronic distortions to trading data. Chronic data anomalies are not able to be explained in terms of fair and genuine trading. It means that price rigging, and the corporate targeting of an emerging company such as CuDeco, become the only plausible explanations for anomalous data trends.

Importantly, research has identified the areas of the ASX's operations that facilitate what amounts to wealth stripping, or white collar fraud, even if it is currently not recognized as such. However the identities of those responsible can only be determined through the forensic auditing of broker and client accounts. ASIC is the only agency that has the authority to do that however ASIC has repeatedly claimed that it has seen nothing wrong with issues referred to them. It is hoped that by combining all trading issues over 4 continuous years that ASIC can begin to see that share price manipulation is taking place on its watch and that it encompasses the entire ASX not just CuDeco Limited.

ALGORITHMS AND THE ASX

Research has overwhelmingly demonstrated that algorithms enable brokers to implement particular trading agendas, and that unfair trading agendas can deliver control over prices. Control is facilitated by entities splitting their buying and selling orders and distributing them to multiple brokers where they are executed through algorithms that are likely to be somehow tuned to each other. Typically a broker involved in selling who generates large numbers of price falls (i.e., Downticks) will be matched by a broker who appears fortunate in being able to pick up large numbers of 'cheaper' Downtick purchases. Research suggests that it is collusion, and not good luck with trading, that is responsible for such trends.

The trading profiles of brokers at various times have been shown to be completely contradictory to what the Australian High Court has defined as genuine selling and genuine buying, yet manipulative profiles are accepted by the regulator without question. The profiles result from the tuning of algorithms and it is not a coincidence that algorithms can be adjusted to enhance the success of short selling and short covering strategies. It occurs through the artificial rigging of prices and through collusive trading.

Algorithms are able to continuously generate artificial prices often with small trades back and forth between trading affiliates, and often with small crossings. They represent streams of trades that contradict both the High Court decision concerning genuine trading and provisions in the Corporations Act, yet if a retail investor was to act similarly, using interactions between separate accounts, they would be held to account for market manipulation.

The issues are extensively addressed in Research Papers 1 to 5 and in ASIC Complaint 6

An overarching truth behind algorithms is that algorithms by design advantage a privileged class of investor over all others, and they do it through unfair means. Strategic advantage comes about through the manipulation of the trading environment and it is facilitated by privileged access to the ASX's trading platform. It relies on superior access to quote information across multiple exchanges whether it be the ASX's platform, Chi X or multiple broker dark pools, and it relies on superior execution speeds. Algorithms become the means for redistributing the investor wealth represented by buying and selling orders input into the system.

There is a winner and a loser with every trade with profits accruing in favour of the lightning quick, sophisticated, privileged traders at the expense of slow moving retail investors and smaller traders where often the differences between quick and slow are measured in terms of milliseconds or even micro seconds.

The trading advantages enjoyed by privileged investors come at the expense of everyone else but they also come at the expense of market integrity. And so too does the back and forth algorithmic trades between affiliates (i.e., trading churn) that is used to unfairly control prices, and where many of the transactions are likely to identify with wash trades if properly investigated. Research has shown that trading churn has been extensively used to unfairly manage the CuDeco share price.

The very structure of the ASX, a private entity exchange focussed on returning profits to its shareholders, facilitates trading advantages for the privileged few, in return for increased revenues through licensing fees and charges accruing from increased turnovers. It all adds to the ASX's bottom line so that it has a vested interest in maintaining the status quo. It means that strong resistance is supplied to confront criticism of algorithmic trading, manipulative short selling i.e., the systems that facilitate wealth stripping. Certainly, fair markets would necessarily result in lower turnovers and reduced profits which represent a huge disincentive to go down that path by those who benefit from the way markets have been allowed to evolve. They also run the show, if not directly, then through affiliations and through the impact of regulatory capture.

Market rigging is effectively being sanctioned at the highest level as it is appears to be an integral component of the ASX business model. It is a similar situation with all global exchanges as they all operate on a private equity basis. **LINKS:** <Who owns Wall Street?> and <Who Owns The Stock Exchanges?>

Compounding the situation is that the powerful entities that are generally at the forefront of institutional trading churn and are represented by the large institutional investment banks such as JP Morgan, Goldman Sachs, Deutsche Bank, Citigroup Inc. etc. also happen to be part owners of the ASX as shareholders. The entire system is particularly connected and cleverly designed to support wealth stripping as pointed out in <CuDeco Research Paper 6.5 Sections 1 and 2> .

An expose of a cleverly crafted system is also provided in the following recent article <Are U.S. Markets Liquid and Deep or Rigged and Broken?>. It would appear that markets are rapidly approaching a time when the gig is rapidly drawing to a close as too many people are becoming aware of sanctioned market rigging, particularly when alarm bells were sounded as far back as 2008/9 < False Trading and Market Rigging in Australia>.

The CuDeco Case Studies go a long way to exposing what is allowed to take place as far as the ASX is concerned, and that whatever has been addressed following the GFC has fallen far short of what is actually required.

CONCLUDING COMMENTS

The regulator would have all shareholders believe that the trading that has occurred in regard to CuDeco and for that matter all ASX companies, is acceptable and complies with trading guidelines at all times. However shareholders see it differently, especially when their holdings have been continuously devalued through price falls and through forced dilution with highly questionable trading activity the common theme; all while the company has gone from strength to strength operationally.

When prices reflect the trading agendas of powerful sophisticated investors and not the fundamentals of the company, or the merits of news events, the market system presents as being comprehensively 'broken'. Currently, the notion of 'broken markets' is a common theme running across global share markets but that doesn't justify price rigging on the ASX and nor should it prevent steps being taken to ensure that companies trade fairly and transparently.

Shareholder concerns aside, anomalous data flows only need to be considered from an understanding of statistical and probability theory where persistently anomalous trends simply don't accrue from events that are meant to be both random and independent, such as interactions between genuine buyers and genuine sellers engaging in a fair trading environment. Anomalies should be subject to smoothing effects especially over long periods of time.

Chronic statistical biases in broker trading profiles and fluctuations between trading periods where wash trades have been prominent and at other times where Dark Trades (i.e., custodial off-market transfers) have been prominent, as well as reductions in large open short positions almost always taking place without fair price discovery, severely question the genuineness of the systems of trading, settlements and securities lending.

The anomalous data issues evident in all trading in CuDeco over 4 years are in no way addressed by the hollow reassurances given by the regulator in regard to systemic trading issues not being a problem. A reasonable person would surely recoil in horror at what has been allowed to take place as summarized by the CuDeco Case Studies, especially under the guise of fair and transparent markets as promoted by ASIC.

The July 29, 2014 trading event provides an opportunity to view all aberrant behaviours occurring over a 4 year period in totality. Joining the dots in an Occam's Razor approach, where the simplest answer is usually the correct one, suggests that chronic data anomalies are the result of a relentless corporate targeting of the company and that price rigging is sanctioned by the highest levels of governance.

Finally, issues concerning CuDeco, while unfairly destroying value for CuDeco shareholders, are just the tip of the iceberg as the problems are indeed systemic and are repeated in stocks across the entire ASX.

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