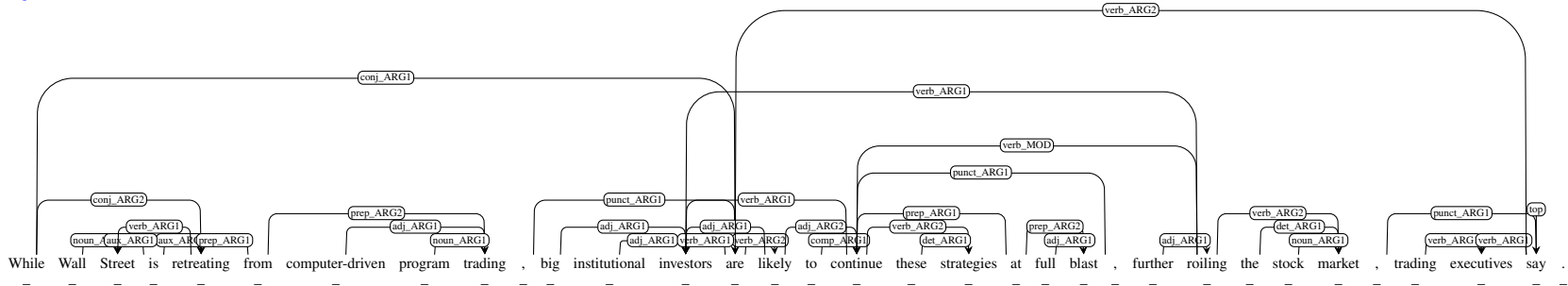
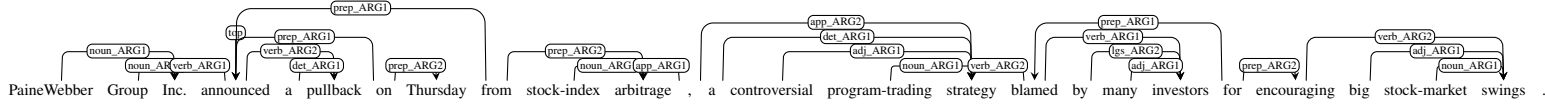


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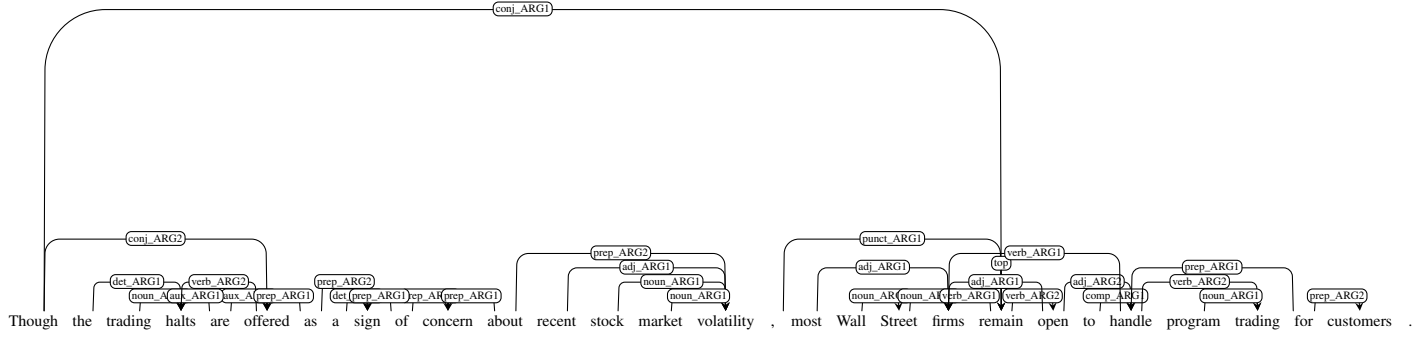
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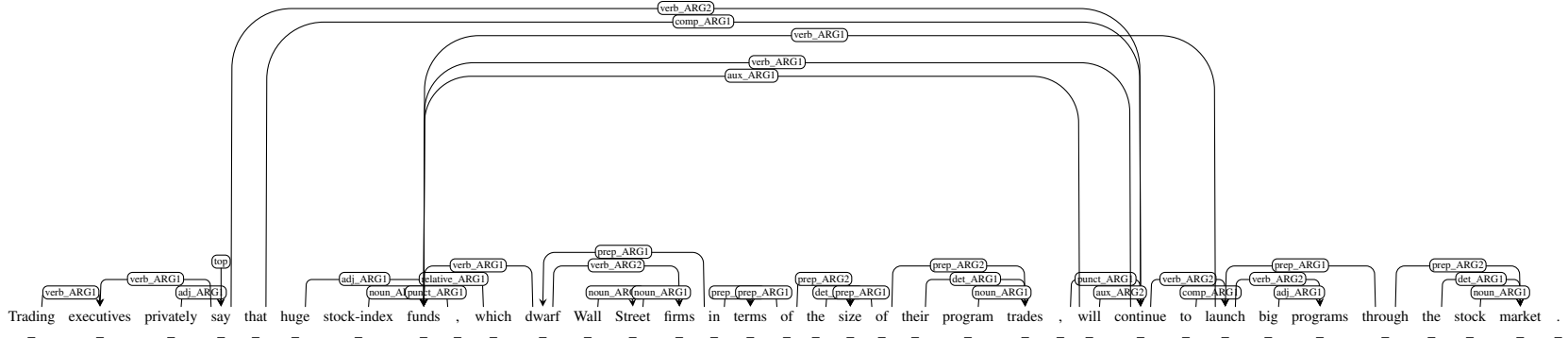
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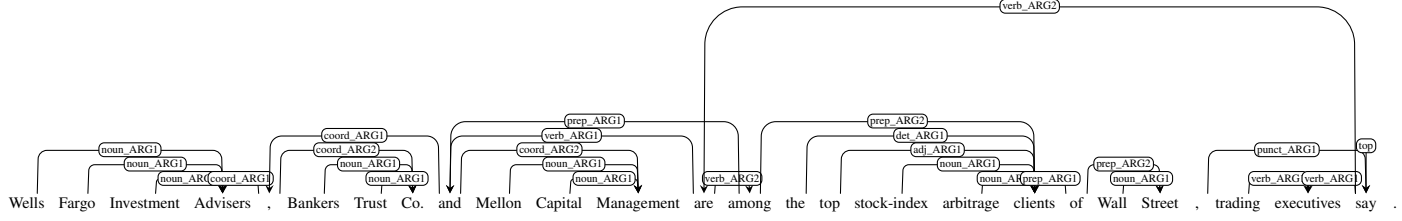
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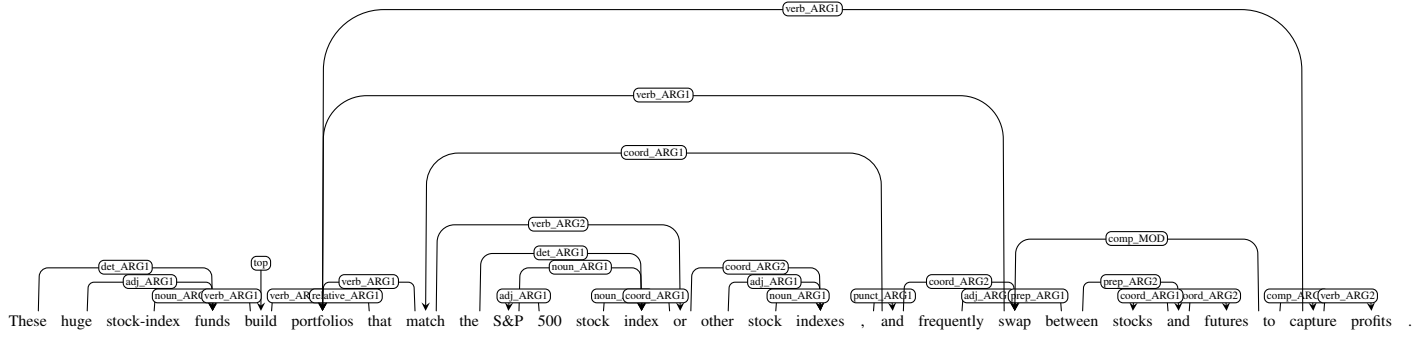
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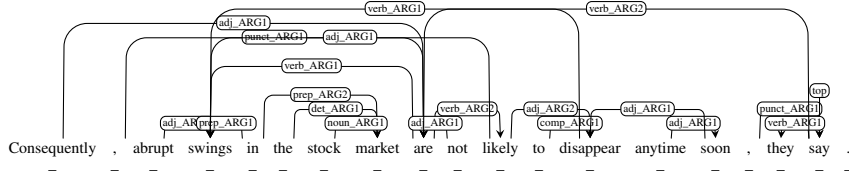
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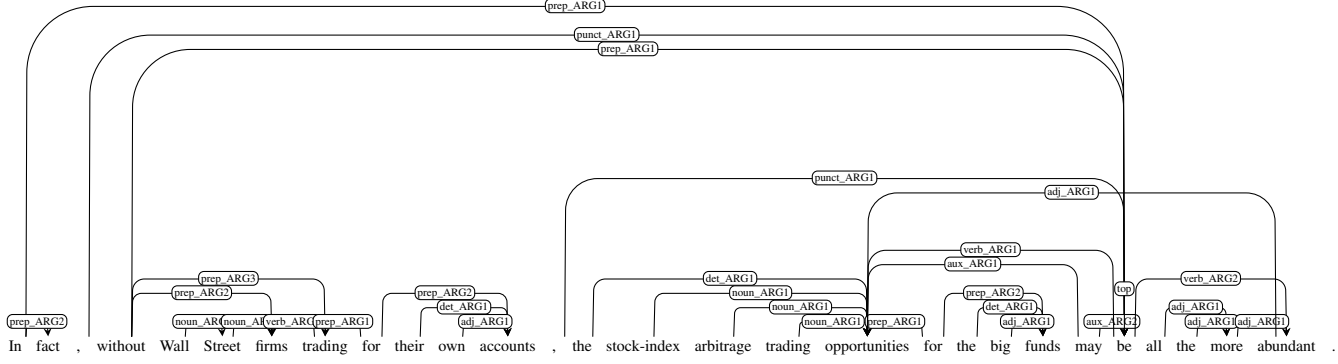
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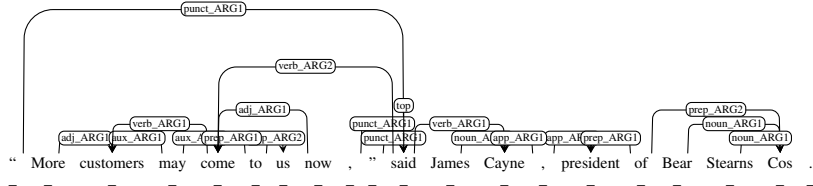
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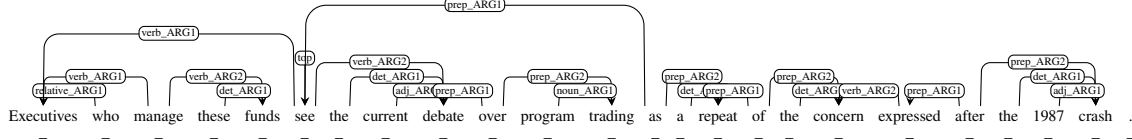
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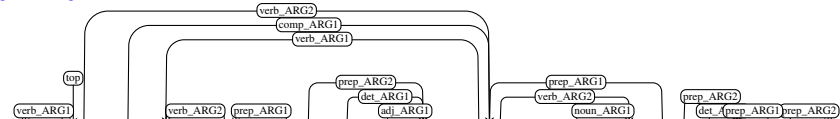
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[20525012]

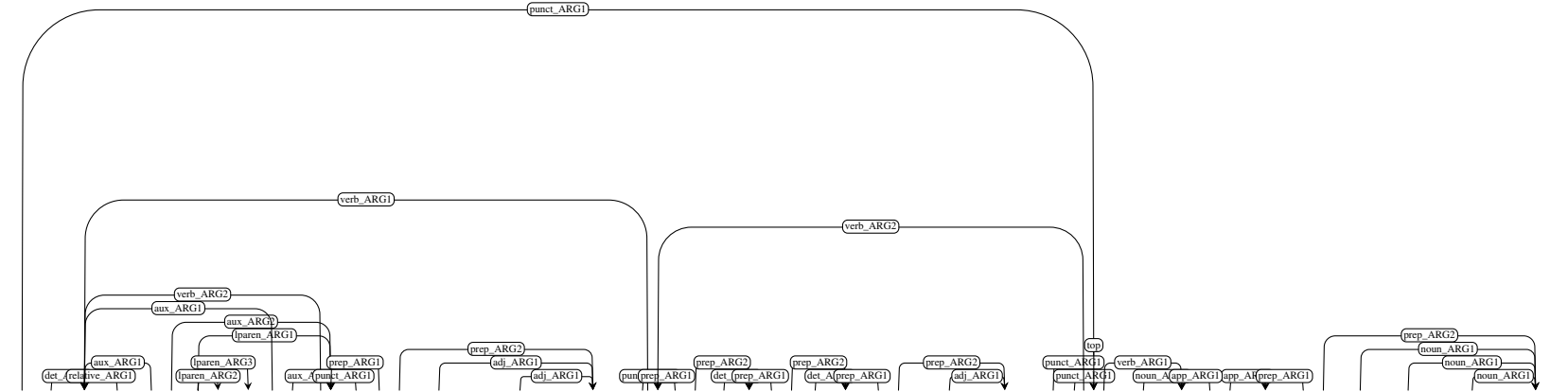


[20525013]



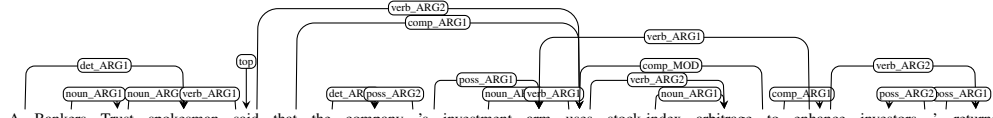
They noted that studies completed after the 1987 crash exonerated program trading as a source of volatility .

[20525014]



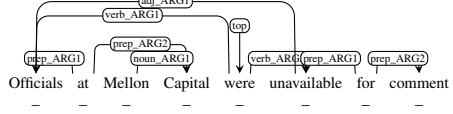
" The issues that are (now) being raised , in classic anti-intellectual fashion , fly in the face of a number of post-crash studies . " said Fred Grauer , chairman of Wells Fargo Investment Advisers .

[20525015]



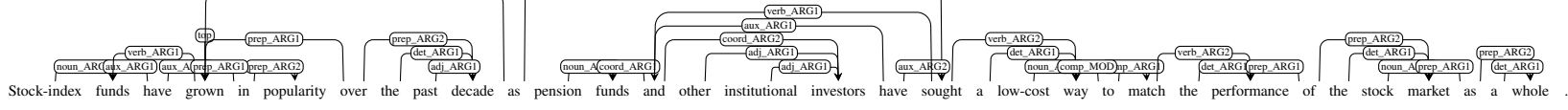
A Bankers Trust spokesman said that the company 's investment arm uses stock-index arbitrage to enhance investors ' returns .

[20525016]



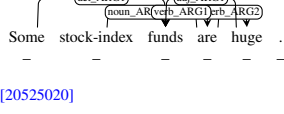
Officials at Mellon Capital were unavailable for comment .

[20525017]



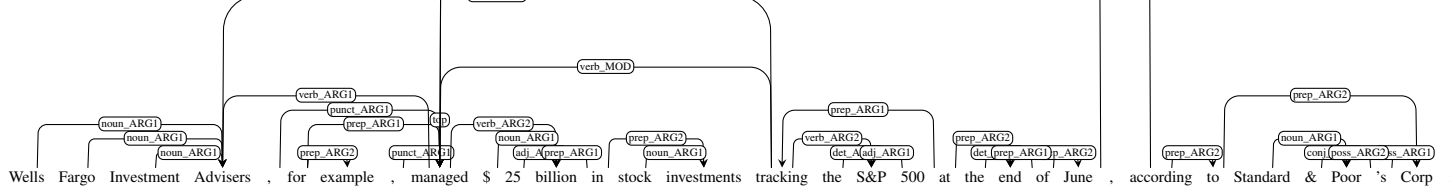
Stock-index funds have grown in popularity over the past decade as pension funds and other institutional investors have sought a low-cost way to match the performance of the stock market as a whole .

[20525019]



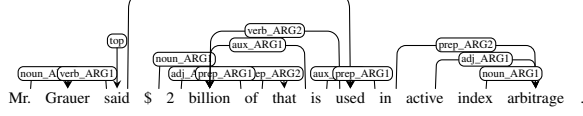
Some stock-index funds are huge .

[20525020]



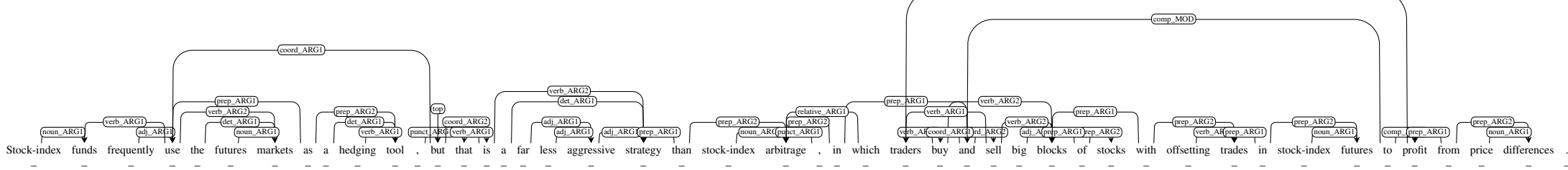
Wells Fargo Investment Advisers , for example , managed \$ 25 billion in stock investments tracking the S&P 500 at the end of June , according to Standard & Poor 's Corp .

[20525021]



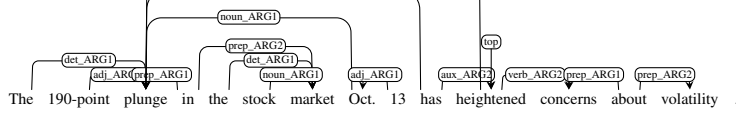
Mr. Grauer said \$ 2 billion of that is used in active index arbitrage .

[20525022]



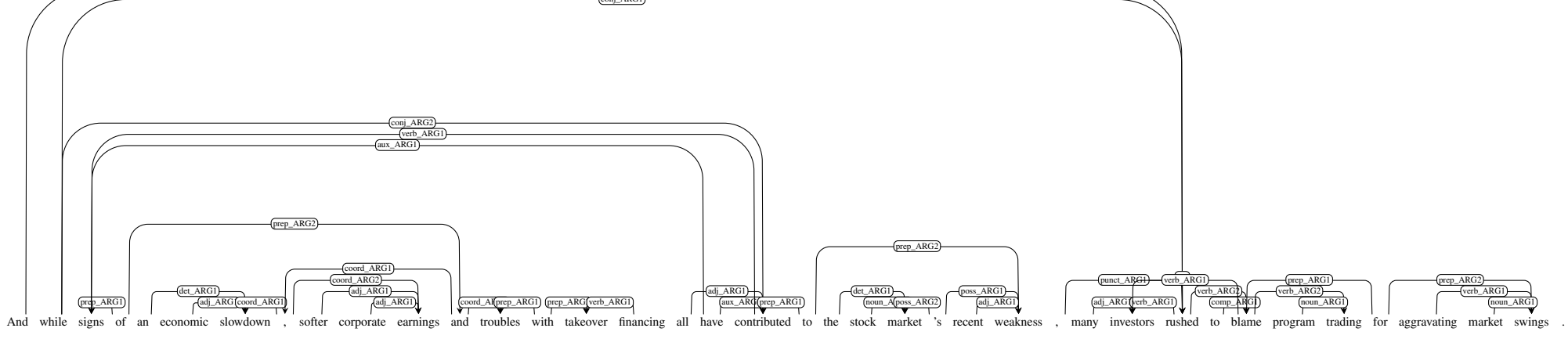
Stock-index funds frequently use the futures markets as a hedging tool , but that is a far less aggressive strategy than stock-index arbitrage , in which traders buy and sell big blocks of stocks with offsetting trades in stock-index futures to profit from price differences .

[20525023]



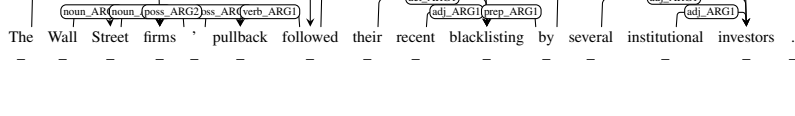
The 190-point plunge in the stock market Oct. 13 has heightened concerns about volatility .

[20525024]



And while signs of an economic slowdown , softer corporate earnings and troubles with takeover financing all have contributed to the stock market 's recent weakness , many investors rushed to blame program trading for aggravating market swings .

[20525025]



The Wall Street firms ' pullback followed their recent blacklisting by several institutional investors .

[20525026]

Last Tuesday , Kemper Corp. 's Kemper Financial Services Inc. unit said it would no longer trade with firms committed to stock-index arbitrage , including the three that later suspended stock-index arbitrage trading on Friday .

[20525027]

Phoenix Mutual Life Insurance Co. and Founders Asset Management Inc. also cut off brokerage firms that engage in program trading .

[20525028]

Though it is still doing stock-index arbitrage trades for customers , Morgan Stanley 's trading halt for its own account is likely to shake up firms such as Kidder , Peabody & Co. that still do such trades for their own account .

[20525029]

Morgan Stanley has consistently been one of the top stock-index arbitrage traders in recent months .

[20525030]

Indeed , Morgan Stanley 's president , Richard B. Fisher , said the firm is putting up money to form a group of regulators , investors and investment banks to find out if stock-index arbitrage artificially induces stock-market volatility .

[20525031]

" We have to clear up these issues and find out what is present that is creating artificial volatility , " Mr. Fisher said .

[20525032]

" There is no question that investor confidence (in the stock market) is critical . "

[20525033]

Joining the call for some kind of study or regulatory action , Merrill Lynch & Co. recommended program-trading reforms late Friday , including higher margins on stock-index futures and greater regulatory coordination .

[20525034]

Separately , Mr. Cayne of Bear Stearns said his firm is working with regulators to balance margin requirements to " enhance stabilization . "

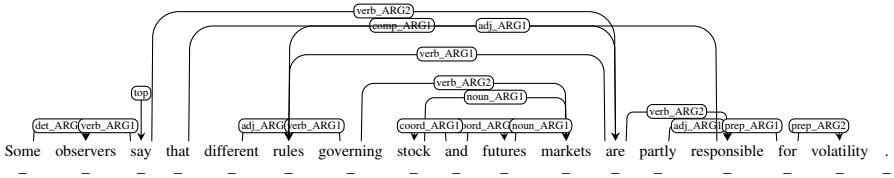
[20525035]

Margin rules determine the minimum amount of cash an investor must put up when buying a security .

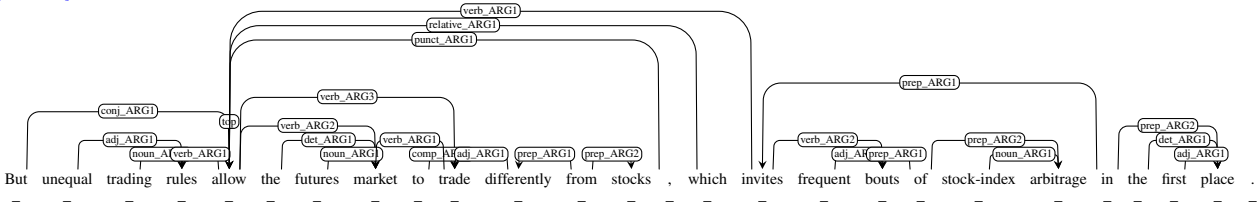
[20525036]

Current rules permit investors to put up less cash for futures than for stocks .

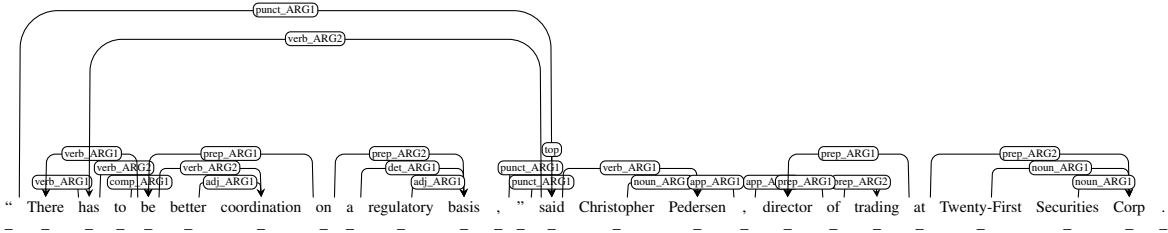
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[20525040]



[20525041]



[20525042]

