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Is_self: False
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A series of slanted lines for handwriting practice, consisting of two rows of parallel lines slanted at approximately 45 degrees.

1. ****Depository Trust Company (DTC)**** \- ***centralized clearing agency that makes sure grandma gets her stonks and the broker receives grandma's tendies***

Here's an EXTREMELY relevant [explanation](https://historynewsnetwork.org/article/895) from [Bruce Bartlett](https://www.creators.com/author/bruce-bartlett) on the role of derivatives:

<https://preview.redd.it/tu88v96vqau61.png?width=805&format=png&auto=webp&s=6e69760997379cb404163cfc6a11b411adbaa344>

Notice the last sentence? A major factor behind the crash was a disconnect between the price of stock and their corresponding derivatives. The value of any given stock should determine the derivative value of that stock. It shouldn't be the other way around. **This is an important concept to remember as it will be referenced throughout the post.**

In the off chance that the market DID tank, they hoped they could contain their losses with [portfolio insurance](<https://www.investopedia.com/terms/p/portfolioinsurance.asp#:~:text=Portfolio%20insurance%20is%20a%20hedging,also%20refer%20to%20brokerage%20insurance>)*. * Another [article from the NY times](<https://www.nytimes.com/2012/10/19/business/a-computer-lesson-from-1987-still-unlearned-by-wall-street.html>) explains this in better detail. \\\

<https://preview.redd.it/rf6ocoe9abu61.png?width=629&format=png&auto=webp&s=e638c4479aceac77a003ae86fa1cfdd23f5406b8>

<https://preview.redd.it/8igwi6mflbu61.png?width=612&format=png&auto=webp&s=853945852aea5a355266bf52b6f1fa573db1e29a>

<https://preview.redd.it/fe78gr1qlbu61.png?width=608&format=png&auto=webp&s=4ec59987333e04cef07541229161b3ff30881444>

A major disconnect occurred when these futures contracts were used to intentionally tank the value of the underlying stock. In a perfect world, organic growth would lead to an increase in value of the company (underlying stock). They could do this by selling more products, creating new technologies, breaking into new markets, etc. This would trigger an organic change in the derivative's value because investors would be (hopefully) more optimistic about the longevity of the company. It could go either way, but the point is still the same. This is the type of investing that most of us are familiar with: investing for a better future.

I don't want to spend too much time on the crash of 1987. I just want to identify the factors that contributed to the crash and the role of the DTC as they transitioned from a manual to an automatic ledger system. **The connection I really want to focus on is the ENORMOUS risk appetite these investors had. Think of how overconfident and greedy they must have been to put that much faith in a computer script.. either way, same problems still exist today.**

Finally, the comment by Bruce Bartlett regarding the mismatched investment strategies between stocks and options is crucial in painting the picture of today's market.

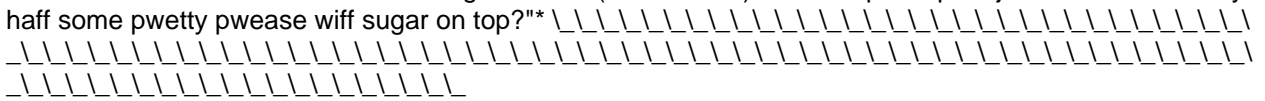
Now, let's do a super brief walkthrough of the main parties within the DTC before opening this **can of worms.**

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I'm going to talk about three groups within the DTC- **issuers, participants, and Cede & Co.**

Issuers are companies that issue securities (stocks), while participants are the clearing houses, brokers, and other financial institutions that can utilize those securities. Cede & Co. is a subsidiary of the DTC which holds the share certificates.

Participants have MUCH more control over the securities that are deposited from the issuer. Even though the issuer created those shares, participants are in control when those shares hit the DTC's doorstep. The

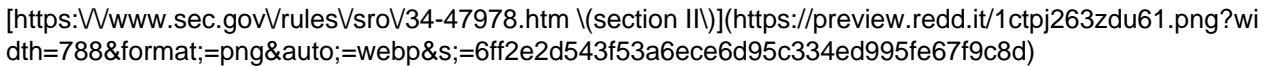
DTC transfers those shares to a holding account *(Cede & Co.)* and the participant just has to ask **"May I haff some pwetty pwease wiff sugar on top?"** 

****Now, where's that can of worms?****

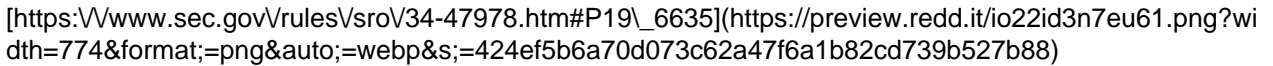
Everything was relatively calm after the crash of 1987.... until we hit 2003..

****deep breath***

The DTC started receiving several requests from issuers to pull their securities from the DTC's depository. I don't think the DTC was prepared for this because they didn't have a written policy to address it, let alone an official rule. Here's the half-assed response from the DTC:

 (<https://www.sec.gov/rules/sro/34-47978.htm>) (section II) (<https://preview.redd.it/1ctpj263zdu61.png?width=788&format=png&auto=webp&s=6ff2e2d543f53a6ece6d95c334ed995fe67f9c8d>)

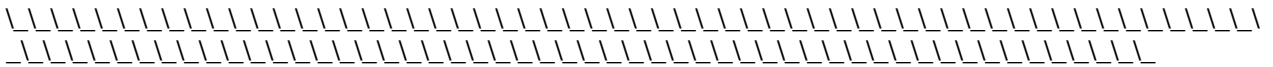
Realizing this situation was heating up, the DTC proposed
[SR-DTC-2003-02] (https://www.sec.gov/rules/sro/34-47978.htm#P19_6635)..

 (https://www.sec.gov/rules/sro/34-47978.htm#P19_6635) (<https://preview.redd.it/io22id3n7eu61.png?width=774&format=png&auto=webp&s=424ef5b6a70d073c62a47f6a1b82cd739b527b88>)

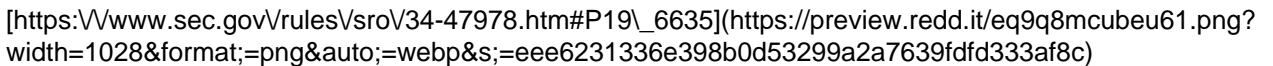
Honestly, they were better of WITHOUT the new proposal.

It became an even BIGGER deal when word got about the proposed rule change. Naturally, it triggered a TSUNAMI of comment letters against the DTC's proposal. There was obviously something going on to cause that level of concern. Why did ***SO MANY*** issuers want their deposits back?

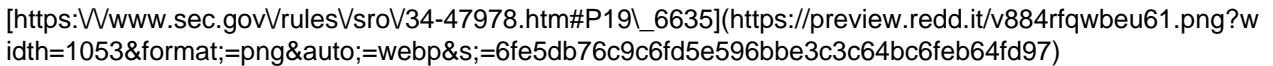
****...you ready for this sh*t?****



As outlined in the DTC's opening remarks:

 (https://www.sec.gov/rules/sro/34-47978.htm#P19_6635) (<https://preview.redd.it/eq9q8mcubeu61.png?width=1028&format=png&auto=webp&s=eee6231336e398b0d53299a2a7639fd9d333af8c>)

OK... see footnote 4.....

 (https://www.sec.gov/rules/sro/34-47978.htm#P19_6635) (<https://preview.redd.it/v884rfqwbeu61.png?width=1053&format=png&auto=webp&s=6fe5db76c9c6fd5e596bbe3c3c64bc6feb64fd97>)

****UHHHHHHH WHAT!?!**** Yeah! I'd be pretty pissed, too! Have my shares deposited in a clearing company to take advantage of their computerized trades just to get kicked to the curb with NO WAY of getting my securities back... AND THEN find out that the big-d*ck "participants" at your fancy DTC party are literally short selling my shares without me knowing....?!

....This sound familiar, anyone??? IDK about y'all, but this "trust us with your shares" BS is starting to sound like a major con.

The DTC asked for feedback from all issuers and participants to gather a consensus before making a decision. All together, the DTC received 89 comment letters (a pretty big response). 47 of those letters opposed the rule change, while 35 were in favor.

To save space, I'm going to use smaller screenshots. Here are just a few of the opposition comments..

https://www.sec.gov/rules/sro/dtc200302/srdtc200302-89.pdf(https://preview.redd.it/ds068omnde061.png?width=894&format=png&auto=webp&s=7958cbf3fde10e1bbb81c6adeb87f2bfc5dc8fde)

****And another:****

https://www.sec.gov/rules/sro/dtc200302/msondow040403.txt(https://preview.redd.it/pkifz41squeu61.png?width=804&format=png&auto=webp&s=733a219050239012a2b6b29c1985bdbd1df60303)

Here are a few in favor*..*

https://www.sec.gov/rules/sro/dtc200302/srdtc200302-82.pdf(https://preview.redd.it/myk7675zseu61.png?width=617&format=png&auto=webp&s=94c622511fc3392bacca6f1c34375920612bc9bb)

****Two****

****Three****

https://www.sec.gov/rules/sro/dtc200302/rbcdain042303.pdf(https://preview.redd.it/xpzt606pueu61.png?width=600&format=png&auto=webp&s=79685c694f661b9c7d03093a8908eebe6cad421e)

Here's the [full list](<https://www.sec.gov/rules/sro/dtc200302.shtml>) if you wanna dig on your own.

...I realize there are advantages to "paperless" securities transfers... However... It is EXACTLY what Michael Sondow said in his comment letter above.. ***We simply cannot trust the DTC to protect our interests when we don't have physical control of our assets*****.**

Several other participants, including **Edward Jones, Ameritrade, Citibank,** and **Prudential** overwhelmingly favored this proposal.. How can someone NOT acknowledge that the absence of physical shares only makes it easier for these people to manipulate the market....?

This rule change would allow these 'participants' to continue doing this because it's extremely profitable to sell shares that don't exist, or have not been collateralized. Furthermore, it's a win-win for them because it forces issuers to keep their deposits in the holding account of the DTC...

Ever heard of the [fractional reserve banking system](https://www.investopedia.com/terms/f/fractionalreservebanking.asp#:~:text=Fractional%20reserve%20banking%20is%20a,by%20freeing%20capital%20for%20lending)? Sounds A LOT like what the stock market has just become.

Want proof of market manipulation? Let's fact-check the claims from the opposition letters above. *I'm only reporting a few for the time period we discussed (2003ish). This is just to validate their claims that some sketchy sh*t is going on.*

1. **[**UBS Securities**]**(https://files.brokercheck.finra.org/firm/firm_7654.pdf) ******(formerly UBS Warburg):**
1. pg 559; SHORT SALE VIOLATION; 3/30/1999

2. pg 535; OVER REPORTING OF SHORT INTEREST POSITIONS; 5/1/1999 - 12/31/1999

3. PG 533; FAILURE TO REPORT SHORT SALE INDICATORS; INCORRECTLY REPORTING LONG SALE TRANSACTIONS AS SHORT SALES; 7/2/2002

2. **[**Merrill Lynch**](https://files.brokercheck.finra.org/firm/firm_16139.pdf) ******(Professional Clearing Corp.):****

1. pg 158; VIOLATION OF SHORT INTEREST REPORTING; 12/17/2001

3. **[**RBC**]**(https://files.brokercheck.finra.org/firm/firm_31194.pdf) ******(Royal Bank of Canada):******

1. pg 550; FAILURE TO REPORT SHORT SALE TRANSACTIONS WITH INDICATOR; 9/28/1999

2. pg 507; SHORT SALE VIOLATION; 11/21/1999

3. pg 426; FAILURE TO REPORT SHORT SALE MODIFIER; 1/21/2003

Ironically, I picked these 3 because they were the first going down the line.. I'm not sure how to be any more objective about this.. Their entire FINRA report is littered with short sale violations. Before anyone asks "how do you know they aren't ALL like that?" The answer is- I checked. If you get caught for a short sale violation, chances are you will ALWAYS get caught for short sale violations. Why? Because it's more profitable to do it and get caught, than it is to fix the problem.

Wanna know the 2nd worst part?

Several comment letters asked the DTC to investigate the claims of naked shorting ****BEFORE**** coming to a decision on the proposal.. I never saw a document where they followed up on those requests.....

NOW, wanna know the WORST part?

https://www.sec.gov/rules/sro/34-47978.htm#P99_35478(https://preview.redd.it/q6jk7as8rfu61.png?width=1057&format=png&auto=webp&s=c66aac021818993e6c23bb7fe96382de8cc9fe7e)

The DTC passed that rule change....

They not only prevented the issuers from removing their deposits, they also turned a 'blind-eye' to their participants manipulative short selling, even when there's public evidence of them doing so...

....Those companies were being attacked with shares THEY put in the DTC, by institutions they can't even identify...

..Let's take a quick breath and recap:

The DTC started using a computerized ledger and was very successful through the 80's. This evolved into trading systems that were also computerized, but not as sophisticated as they hoped.. They played a major part in the 1987 crash, along with severely desynchronized derivatives trading.

In 2003, the DTC denied issuers the right to withdraw their deposits because those securities were in the control of participants, instead. When issuer A deposits stock into the DTC and participant B shorts those shares into the market, that's a form of [rehypothecation](<https://www.investopedia.com/terms/r/rehypothecation.asp#:~:text=Rehypothecation%20is%20a%20practice%20whereby,or%20a%20rebate%20on%20fees>). This is what so many issuers were trying to express in their comment letters. In addition, it hurts their company by driving down it's value. They felt robbed because the DTC was blatantly allowing it's participants to do this, and refused to give them back their shares..

It was critically important for me to paint that background.

..now then....

Remember when I mentioned the DTC's enrollee- Cede & Co.?

[https://www.sec.gov/rules/sro/34-47978.htm#P19_6635 (section II)](https://preview.redd.it/97z3b2k9pju61.png?width=283&format=png&auto=webp&s=;67ad209f338a0ccebf8ae09cd43944730ac35279)

I'll admit it: I didn't think they were that relevant. I focused so much on the DTC that I didn't think to check into their enrollee...

..Wish I did....

https://www.americanbanker.com/news/you-dont-really-own-your-securities-can-blockchains-fix-that(https://preview.redd.it/oqpj59jypju61.png?width=830&format=png&auto=webp&s=a7de5c100699c85132b531b501b79a8bafcdfa18)

That's right.... Cede & Co. hold a "master certificate" in their vault, which ****NEVER**** leaves. Instead, they issue an ***IOU*** for that master certificate..

Didn't we JUST finish talking about why this is such a major flaw in our system..? And that was almost 20 years ago...

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**Here comes the mind f\*ck**
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https://smithonstocks.com/part-8-illegal-naked-shorting-series-who-or-what-is-cede-and-what-role-does-cede-play-in-the-trading-of-stocks/(https://preview.redd.it/1yfr9x0arju61.png?width=1109&format=png&auto=webp&s=066cac93b0c8fb05e617c81e9fc63eeacb847d4f)

Now....

I found a list of all the DTC

****I've got your name, number, and I'm coming for you-² ***ALL OF YOU*****

****DIAMOND.F*CKING.HANDS****