

Is the Stock Market Rigged With Insider Trading?

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While the ongoing Rajaratnam trial over "Insider Trading" or the saga with Berkshire Hathaway's David Sokol's Lubrizoil (Stock Symbol: LZ) trades overwhelm the stock market, investors feel the odds of making a profitable trade is stacked against them which helps explain why mom & pop haven't piled back into stocks even after a more-than 2-year bull market.

Jurors in the insider trading case of hedge fund billionaire Raj Rajaratnam will have to start the process all over again starting today after a juror was

dismissed for medical reasons.

David Sokol, the former lieutenant to Warren Buffett who's been caught up in a stock-trading scandal, is increasing his stake in a small bank in which he has a significant investment.

Sokol disclosed in an SEC filing the purchase of 900 shares of Middleburg Financial Corp. (Stock Symbol: MBRG), a bank headquartered in Virginia. He bought the shares at \$15 each. Sokol already owns a 20.2% stake in Middleburg, according to the company's recent proxy statement.

Shares of Middleburg shot up in late March after Buffett's Berkshire Hathaway announced Sokol was resigning from the company, and it disclosed his purchase of stock in a company that Sokol convinced his bosses to acquire.

Analysts said investors were driving up Middleburg stock on the expectation that Sokol – who said he was leaving Berkshire to start his own investment company modeled on his former employer – might buy Middleburg outright. Shares of Middleburg recently traded at \$15.03 each, down 3 cents on the day and about 1% higher than levels three months ago.

Meanwhile, more evidence the stock market is not a level playing field: 47% of respondents in a survey of 400 investors from across the world found one-on-one meetings with companies regularly lead to price sensitive information being divulged, according to the Rotterdam School of Management.

The stock market may not be completely and totally rigged but the odds are against the average investor but that does not however mean the pros are "Trading Secrets" amongst themselves. Real inside information is actually surprisingly rare but it wouldn't be a surprise if it's traded on pretty actively.

Martha Stewart avoided a loss of \$45,673 by selling all 3,928 shares of her ImClone Systems stock on December 27, 2001, after receiving material, nonpublic information from Peter Bacanovic, who was Stewart's broker at Merrill Lynch — The day following her sale, the stock value fell 16%. On October 6, 2008, ImClone accepted a \$6.5 billion acquisition offer from Eli Lilly and Company (Stock Symbol: LLY).

October 3, 2002, Stewart resigned her position, held for four months, on the board of directors of the New York Stock Exchange. On October 8, 2004 she reported to prison.

What separates the successful professionals from the average individual investor is an information edge, in terms of research and analysis, not privileged information. Most of the "Rumors" whispered around trading floors simply don't hold water — legitimate research on industry trends from which investor's make informed trades about the fate of related companies is what makes a trade successful.

Even if professionals are getting illegal tips from their one-on-one meetings, as the survey suggests, there are few slam dunks, outside of "Inside Information" about pending "Mergers" — either way, it's not the fashion you would want the markets to function.