A man with grey hair, wearing a dark suit, white shirt, and a yellow and blue patterned tie, is speaking at a dark wooden podium. He is gesturing with his right hand. The background is slightly blurred, showing other people and an indoor setting.

HEDGE PAPERS No.11

High-Frequency
Hucksters

RIGHT-WING FINANCIAL TRADERS FROM THE SUBURBS BET BIG ON THE PHILADELPHIA MAYORAL RACE:

Why are a group of conservative traders bankrolling a self-described Democrat in the Philadelphia mayoral election?

Anthony Hardy Williams enjoys a long history of support from the founders of Susquehanna International Group (SIG), a dark pool “high-frequency trading” firm based in the wealthy suburbs of Philadelphia.

The ultra-conservative 1%’ers who founded SIG were the major bankrollers of Williams’ ill-fated campaign for Governor. They have now already lavished his mayoral ambitions with a down payment of \$250,000 and more in television ads, signaling that they are ready to spend millions more.^[1] Beyond Anthony Hardy Williams they are also funding the employer of Williams’ campaign manager.^[2]

These same dark pool traders are also helping to bankroll part of the Koch’s conservative think-tank and advocacy empire that has done tremendous damage to working class and communities of color across the country.

Philadelphians should ask: why have these wealthy suburban traders—who fund conservative Republicans and ultra-conservative causes—invested so heavily in a Democratic primary for the city’s next mayor?

Joel Greenberg, Jeff Yass, and Arthur Dantchik, all of the Susquehanna International Group, are once again peddling influence in electoral politics.

The Susquehanna Group describes itself as a privately held global trading and technology firm servicing securities worldwide. They have proprietary investments in customer trading, venture capital, and derivative products, with a specialization as a Designated Primary Market Maker (DPM). They traffic in liquidity provision and highly volatile trading that creates wealth from financial strategies meant to cut into the margins of other investors, as opposed to the old fashioned way of investment in actual jobs or infrastructure.

The founding trio quite literally forged their path through the world of gambling and strategic risk taking in high stakes poker, which they eventually parlayed into the world of high frequency trading.^{[3][4]}

The collective influence of hedge fund managers and high frequency traders in state and local politics is growing at an alarming rate.

A review of campaign finance records in New York State, for example, shows that 570 hedge fund managers have contributed \$36, 642, 505 to more than 1,500 candidates and committees since 2000.^[5]

In several states, the efforts of these wealthy donors have organized under the banner of “education reform,” as a way of buying influence and advocating the privatization of education to private interests instead of having to pay taxes to help the neediest communities fund their schools and mitigate poverty.

THREE BIG SCOTT WALKER DONORS ARE COMING TO PHILLY NEXT

Over the last four years the three founders of Susquehanna International Group have given more than \$30,000 directly to Scott Walker first election and subsequent re-election. The total doesn't count independent expenditures made by groups they've directly donated to like the American Federation of Children—one of the top PAC supporters of Scott Walker's 2012 gubernatorial election.^[6]

SUSQUEHANNA FOUNDERS HAVE A LONG HISTORY OF TRYING TO BUY PENNSYLVANIA POLITICIANS:

The SIG group is no slouch at the gaming table of political influence.

Following their failed \$6 million attempt to vault state Senator Anthony Harding Williams into the Governor's Mansion in 2010, the Montgomery County gamblers are back once again, this time to help Williams capture the Mayoral race in Philadelphia.

Their stated reasoning for backing Williams is the issue they claim matters most to their extreme market oriented religious wethos, namely school choice and turning public schools over to private interests.

The SIG certainly put its chips on the right number in the case of Williams.

In 2011, he chaired the education transition team of Tom Corbett whose disastrous budget cuts, expansion of charter schools and voucher tax credit program undermined Philadelphia's public schools.

With the support of Corbett, Williams helped push a controversial pro-voucher tax credit program out of the state senate.^[7]

In 2013, he pushed for removal of caps on charter expansion at the state level.^[8] In 2014, he was responsible for making sure that a state authorizer could approve charter schools when the cash strapped Philly School District was trying to control charter costs.^[9]



Senator Williams via newsworks.org

Their vehicle for financing Williams will be the recently registered American Cities PAC, which – thanks to recent US Supreme Court Rulings – enjoys unrestricted status in terms of the donations it can make so long as they do not coordinate directly with the campaign.

The Susquehanna trio lumped down \$250,000 on American Cities, which they've signaled is just down payment on their special interest investment in school choice.^[10] Should they reach the \$5 million they infused in 2010 they feel like they could assure Anthony Hardy Williams the election.^[11]

Williams mayoral campaign manager, Dawn Chavous, has worked directly for the Susquehanna Group-sponsored Students First PAC while simultaneously consulting for Williams.^[12]

She also actively lobbied the state on behalf Students First Corp, the Susquehanna's non-profit legislative advocacy group, a PAC that paid Chavous \$44,000 at the same time that a) she consulted Williams, and b) the PAC was donating over \$100,000 to Williams.

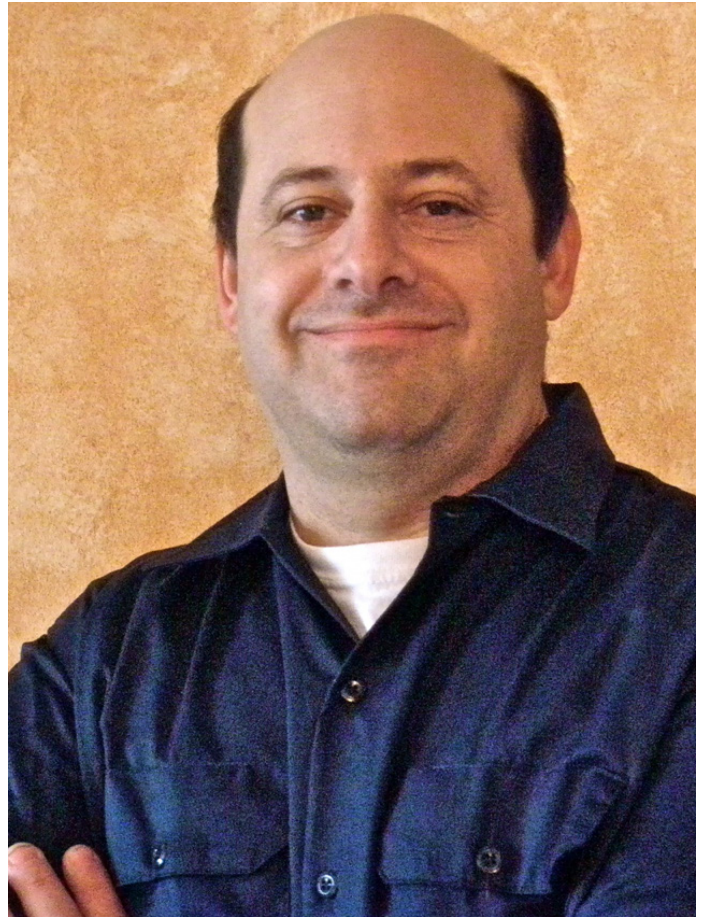
While not illegal, the practice represents the dark gray intersections between lobbying, PAC money, and lawmakers in campaign finance that Philadelphia voters have consistently rejected.^[13]

The Susquehanna partners deepened their involvement in Pennsylvania education policy by pumping over \$2 Million into their pro-charter political action committee Students First, founded by right-wing Amway heiress and conservative bankroller Betsy DeVos, sister of Erik Prince, the founder of the mercenary outfit formerly known as Blackwater.

Greenberg, Yass, and Dantchik have also funneled money to Corbett's choice to head the SRC, Bill Green, as well as to the city's controversial "tax credits for school scholarships" philanthropic scheme in Philadelphia, particularly to Sky Community Partners, a charity started by Dawn Chavous to receive educational tax credits that has received almost its entire funding base from SIG, and Choice Academic, a charity run by Yass' wife Janine Yass.

According to the Philadelphia Inquirer last year the tax credit program cost Pennsylvania \$127 million, "despite minimal oversight, regulatory loopholes and little evidence of its effectiveness."^[14]

While claiming agnosticism behind the banner of school choice they acknowledge an unabashed libertarian ethos and a penchant for market solutions to public problems.



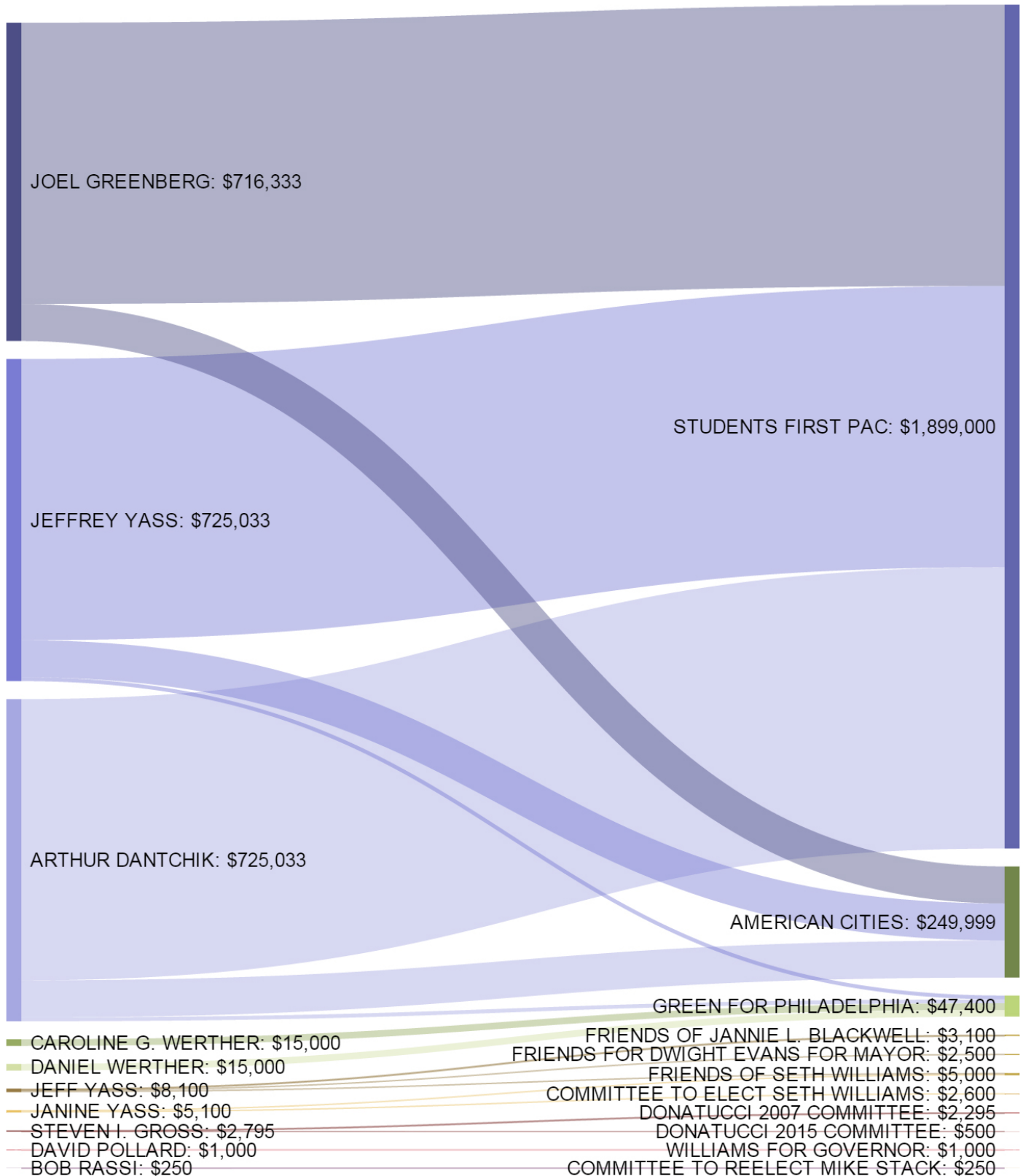
Joel Greenberg via texh2energy.com

The organizations they fund are clear: they would like to see a transfer of public schools to private companies.



COMPETITIVE
ADVANTAGE
RESEARCH

Susquehanna International Group Political Investments in Philadelphia: 2007-2014



SUSQUEHANNA FOUNDERS—THE CUT- RATE KOCH-BROTHERS- KNOCKOFFS OF THE PHILLY SUBURBS:

A handful of Susquehanna International Group founders have helped bankroll several large American conservative think tanks and policy groups that could be seen as something akin to low-rent knockoffs of the Koch brothers.

The Susquehanna Foundation, which lists its address as that of Susquehanna's Cydwyd office building, has contributed millions of dollars to the various policy groups who rely on the Koch Brothers for operating support.

SIG is also a player in world of libertarian think tanks that have long advocated for turning over the functions of government to profit-seeking corporations. These agendas are then translated with austerity platforms to turn public school districts into portfolio managers and to unleash entrepreneurialism in education writ large.

Jeff Yass, whose wife Janine sits on the board of the Philadelphia Schools Partnership, is the active director of the Cato Institute, one of the best-known libertarian think tanks in America.

Cato proudly proclaims on its website that “states should institute choice on a broad scale, moving toward a competitive education market.”^[15] They advocate turning over public schools at large to for profit interests.



Jeff Yass via [PokerNews.com](https://www.pokernews.com)

Even as Tom Corbett's cuts were devastating Philadelphia schools the Cato institute was arguing that Philly schools have enough more than enough money.^{[16][17]}

Arthur Dantchik is director of the Institute for Justice, a libertarian law firm that represents parents in school choice cases. Both Cato and the Institute for Justice have received sizeable contributions from The Susquehanna Foundation, the philanthropic arm of SIG. Rounding out the trio, Greenberg was previously a director and major donor of the American Federation of Children, a pro voucher and charter group headed by Amway billionaire Betsy DeVos.^[18]

Recipient	Contribution total
Atlas Economic Research Foundation	\$11,000.00
Ayn Rand Institute	\$325,000.00
Cato Institute	\$2,335,000.00
Center for Competitive Politics	\$25,000.00
Center for Education Reform	\$80,000.00
Center for Individual Rights	\$1,000.00
Foundation for Educational Choice	\$142,500.00
Foundation for Individual Rights in Education	\$5,000.00
Franklin Institute Science Museum	\$35,400.00
Free Enterprise Institute	\$5,000.00
FreedomWorks	\$10,000.00
FreedomWorks Foundation	\$10,000.00
Institute for Justice	\$2,310,000.00
Reason Foundation	\$27,000.00
Social Security Choice.org Foundation	\$80,000.00

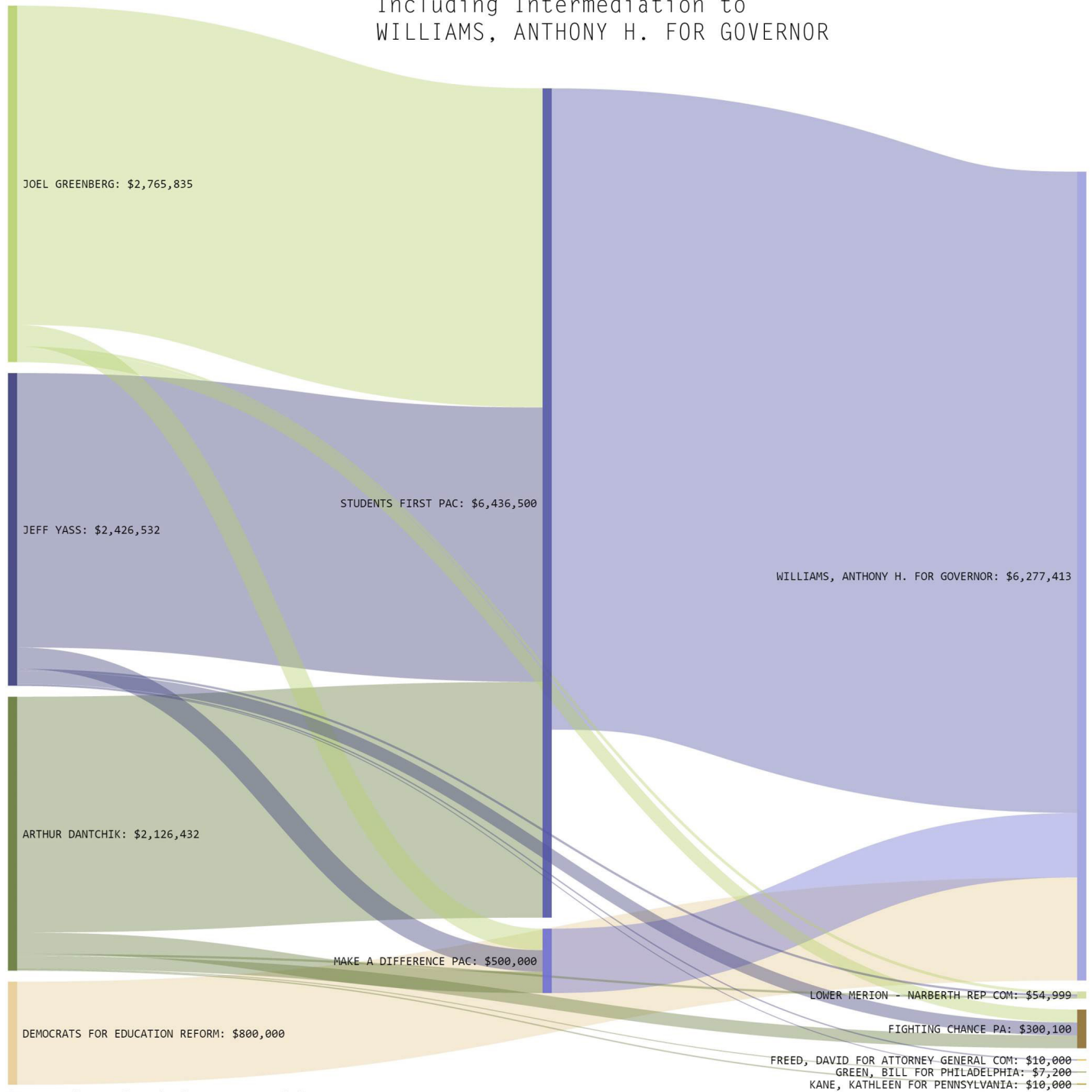
The largest donations from the Susquehanna Foundation went to the Koch-connected Cato Institute and Institute for Justice—two Washington DC-area libertarian groups.

Combined, these organizations have received \$4.6 million from SIG's foundation. Donations include \$20,000 to FreedomWorks, the controversial Koch-backed political group who was instrumental in garnering support for "Voter ID" laws used to disenfranchise minority voters and college students.^[19]

Susquehanna has also given at least \$25,000 to the Center for Competitive Politics, a DC-area group that opposes disclosure of corporate political giving.^[20] Many of these organizations advocate for lowering taxes for the rich, privatizing social security and gutting protections for workers.



Pennsylvania Political Giving By Susquehanna International Group Partners Including Intermediation to WILLIAMS, ANTHONY H. FOR GOVERNOR



Source: Pennsylvania Department of State

FINES FOR CHEATING ARE A COST OF DOING BUSINESS

Since Michael Lewis's New York Times bestseller *Flash Boys* was released in 2014 high-frequency trading has come under intense scrutiny by regulators, lawmakers and investors. Their behavior, it has been argued, amounts to a "tax" on the earnings of unsophisticated investors.

A review of Susquehanna's sanction history indicates a pattern of behavior^[21] that is commonly associated with high-frequency trading abuses, of the type criticized in the recent New York Times bestseller 'Flash Boys.'

Susquehanna International Group and its subsidiaries have been hit with fines totaling more than \$2.5 million. Many of these fines relate to order execution issues.

This is especially troubling, as SIG was one of several firms who settled a 2003 lawsuit brought by the California Public Employee Retirement System, accusing the firm of using their knowledge of pending orders to execute trades ahead of their clients.^{[22][23]}

Many of the fines paid by SIG appear to relate to violations that allowed SIG to profit at the expense of their clients.

For example, according to one particular SEC finding, SIG caused their customers to lose \$6.37 million, by matching orders from the firm's account instead of getting the best possible price on an open exchange SIG pocketed \$5.1 million, even after an SEC fine of \$1.27 million.^[24]

These types of slap-on-the-wrist fines have virtually become part of doing business in the world of high-frequency trading. What is unnerving, however, is the number and extent of fines paid by SIG.

While SIG has been hit with at least 63 fines and sanctions, many of their competitor firms have seen far fewer regulatory cases. FINRA shows Citadel Securities LLC has only 28 regulatory actions, and DRW Trading Group has only three.

SIG and 13 other so-called specialist firms paid a total of \$70 million to settle Securities and Exchange Commission administrative and civil charges that they violated their obligation to serve public customer orders ahead of their own interests between 1999 and 2005.^[25]

These fines and slaps on the wrist aren't victimless. In many cases the people being hurt are pensioners and Americans with retirement who are playing by the rules and investing in companies to help the American economy and build up a nest egg. High-frequency trading firms have been critiqued as having little benefit to long-term investors like pensions and mutual funds. The strategies employed by high-frequency trading firms can make it difficult for large investors to execute trades at a price most favorable to them. For retirees, this means that high-frequency traders are eroding investment gains made by their pension funds."

Susquehanna has also been in the market for purchasing "market making" units from penny stock traders like E*Trade, a firm that has been fined several times, at rates upwards of \$2.5 Million, for "ignoring red flags and improperly (selling) billions of unregistered penny stock shares."^[26] Susquehanna purchased a marketing unit of E*Trade, G1 Executive Services LLC, for \$75 million despite the fact that the unit has had settlements of \$2.5 million with the Securities and Exchange Commission.^[27] Buying into shady trading firms analogous to Jordan Belfort's Stratton-Oakmont boys made famous by the Scorsese film "Wolf of Wall Street," Susquehanna has shown that it is ready willing and able to play fast and loose in the dark corners of purely speculative markets.

FOOTNOTES:

- [1] <http://www.phillymag.com/citifed/2015/02/15/dark-money-philadelphia-mayors-race/>
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- [3] http://en.wikipedia.org/wiki/Susquehanna_International_Group
- [4] <http://www.sig.com/>
- [5] <http://blog.timesunion.com/capitol/archives/187527/common-cause-decries-soft-money-housekeeping-slush-funds/>
- [6] <http://www.wisdc.org/pr072512.php>
- [7] <http://www.phillymag.com/articles/anthony-williams-wants-to-be-mayor/>
- [8] <http://www.phillyvoice.com/ties-between-williams-campaigns-charter-schools/>
- [9] <http://www.phillyvoice.com/ties-between-williams-campaigns-charter-schools/>
- [10] <http://www.phillymag.com/citifed/2015/02/15/dark-money-philadelphia-mayors-race/>
- [11] <http://www.phillymag.com/citifed/2015/02/15/dark-money-philadelphia-mayors-race/>
- [12] http://www.philly.com/philly/news/politics/mayor/20150403_All_in_the_family.html
- [13] <http://www.phillyvoice.com/ties-between-williams-campaigns-charter-schools/>
- [14] http://www.philly.com/philly/news/politics/mayor/20150403_Mayoral_hopeful_Williams__hallmark_law_was_most_widely_used_by_his_supporters.html#Q5JxPycwdXQBrwXd.99
- [15] http://www.philly.com/philly/news/politics/mayor/20150324_Upping_the_ante_for_City_Hall.html
- [16] <http://www.cato.org/blog/dont-blame-school-choice-phillys-school-funding-fiasco>
- [17] <http://www.cato.org/blog/philly-schools-money-really-problem>
- [18] http://www.philly.com/philly/news/politics/mayor/20150324_Upping_the_ante_for_City_Hall.html
- [19] <http://www.freedomworks.org/fieldtags/voter-id>
- [20] <http://www.newsmax.com/Headline/gop-disclose-act-democrats/2010/06/14/id/361978/>
- [21] <http://www.thejournal.ie/susquehanna-international-group-fined-by-irish-central-bank-968899-Jun2013/>
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- [23] http://securities.stanford.edu/filings-documents/1029/NYSE03-01/20031215_f01c_CPERS.pdf
- [24] <https://www.sec.gov/litigation/admin/2009/34-59506.pdf>
- [25] “SEC Charges 14 Stock-Trading Firms.” *Wall Street Journal* March 5, 2009, Sarah Lynch and Kerry Grace, <http://www.wsj.com/articles/SB123619277611831671>
- [26] <http://www.reuters.com/article/2014/10/09/us-sec-ettrade-idUSKCN0HY1YC20141009>
- [27] “Financial Briefing Book: E*Trade Financial.” *Wall Street Journal*, October 24, 2013, Section C, p. 2, Saabira Chaudhuri.

WHO ARE THE HEDGE CLIPPERS?

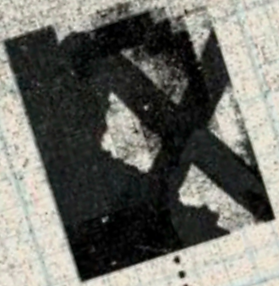
The Hedge Clippers are working to expose the mechanisms hedge funds and billionaires use to influence government and politics in order to expand their wealth, influence and power. We're exposing the collateral damage billionaire-driven politics inflicts on our communities, our climate, our economy and our democracy. We're calling out the politicians that do the dirty work billionaires demand, and we're calling on all Americans to stand up for a government and an economy that works for all of us, not just the wealthy and well-connected.

The project is supported by the Strong Economy for All Coalition, a coalition of labor unions and community groups working to fight income inequality and build shared prosperity and economic & social justice in New York and around the country.



CAPITAL ADVISORS, L.P.
CAPITAL INVESTORS, L.P.
CAPITAL MANAGEMENT, L.P.
The Fundamentals

VERIFIED
13 CIP
ACT CARD

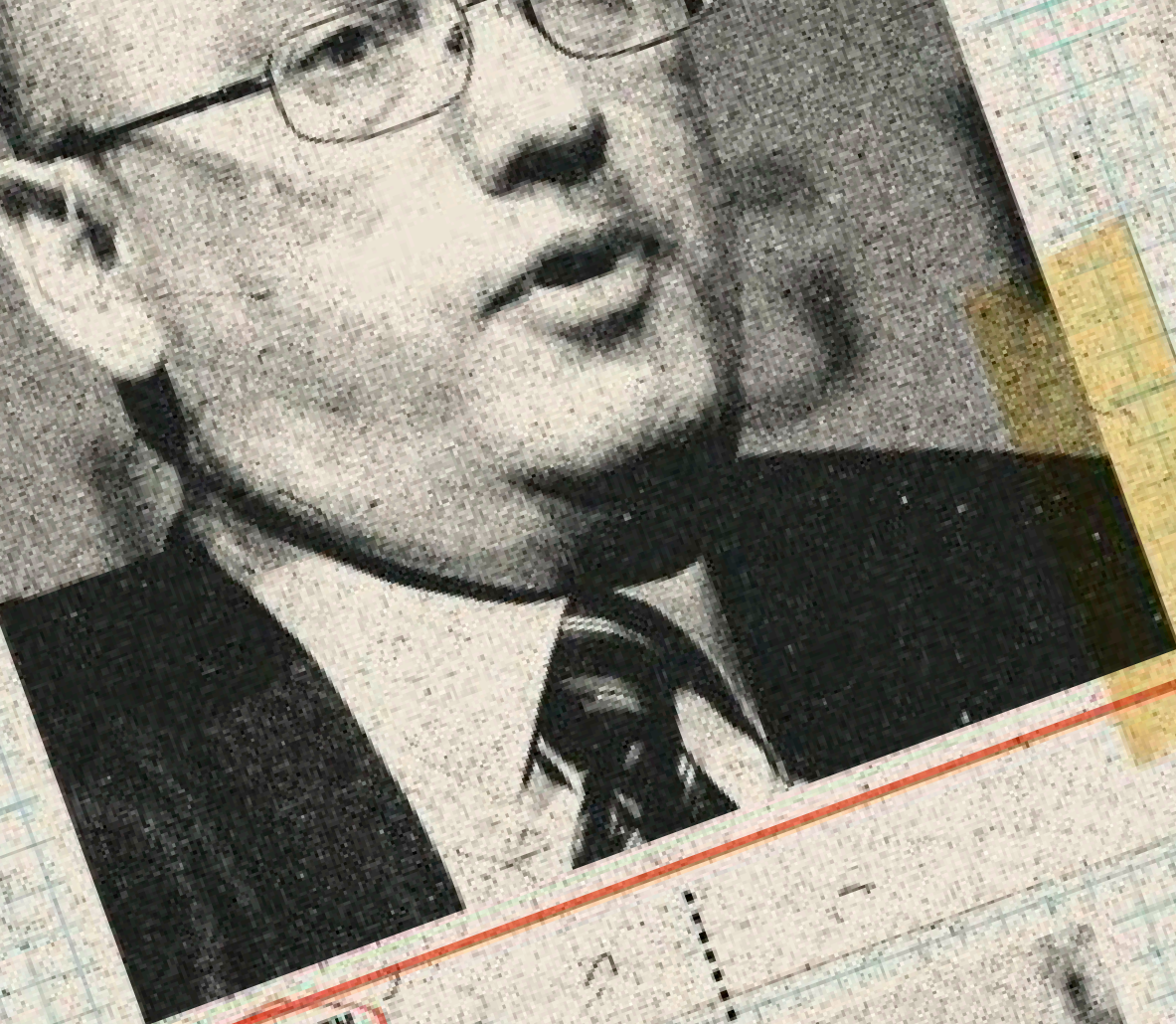


MICHAEL STEINBERG
Portfolio manager

Wyeth

elam

STEVE COHEN
Founder of SAC Capital Advisors



STEVE COHEN
Founder of SAC Capital Advisors

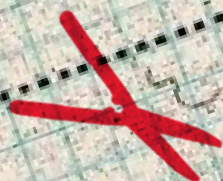


MATHEW MARTOMA
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