Mystery of terror 'insider dealers'

By Chris Blackhurst

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Share speculators have failed to collect $2.5m (£1.7m) in profits made from the fall in the share price of United Airlines after the 11 September World Trade Centre attacks.

The fact that the money is unclaimed more than a month later has re-awakened investigators' interest in a story dismissed as coincidence.

It may be that investors who were able to predict the share price crash so skilfully are reluctant to be seen profiting from tragedy. But investigators now wonder whether there is a more sinister explanation.

The authorities are examining the possibility that if they knew what was coming, traders were intent on taking their profits immediately, before regulators had woken up to any possible scam. But investors failed to foresee that the first response of the US stock markets to the disaster was to suspend all trading for four days, thereby denying them the chance of cashing in their profits.

Further details of the futures trades that netted such huge gains in the wake of the hijackings have been disclosed. To the embarrassment of investigators, it has also emerged that the firm used to buy many of the "put" options – where a trader, in effect, bets on a share price fall – on United Airlines stock was headed until 1998 by "Buzzy" Krongard, now executive director of the CIA.

Until 1997, Mr Krongard was chairman of Alex Brown Inc, America's oldest investment banking firm. Alex Brown was acquired by Bankers Trust, which in turn was bought by Deutsche Bank. His last post before resigning to take his senior role in the CIA was to head Bankers Trust – Alex Brown's private client business, dealing with the accounts and investments of wealthy customers around the world.

There is no suggestion that Mr Krongard had advance knowledge of the attacks.

Between 6 and 7 September, the Chicago Board Options Exchange saw purchases of 4,744 "put" option contracts in
UAL versus 396 call options – where a speculator bets on a price rising. Holders of the put options would have netted a profit of $5m (£3.3m) once the carrier's share price dived after 11 September. On 10 September, more trading in Chicago saw the purchase of 4,516 put options in American Airlines, the other airline involved in the hijackings. This compares with a mere 748 call options in American purchased that day. Investigators cannot help but notice that no other airlines saw such trading in their put options.

It was not just airlines that were targeted by remarkably canny investors. One of the biggest occupants of the World Trade Centre was Morgan Stanley, the investment bank. In the first week of September, an average of 27 put option contracts was bought each day in its shares. The total for the three days before the attacks was 2,157. Merrill Lynch, another WTC tenant, saw 12,215 put options bought in the four days before the attacks, when the previous days had seen averages of 252 contracts a day.

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