

Testimony of
Mr. Christopher Thomas

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September 26, 2006

United States Senate Committee on the Judiciary

Testimony of Christopher K. Thomas,
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At a hearing on "Illegal Insider Trading: How Widespread is the Problem and is there Adequate Criminal Enforcement?" Tuesday, September 26, 2006

Thank you Senator Specter and Committee Members for the invitation to appear here today.

I am the President of Measuredmarkets Inc., which firm supplied the underlying data to The New York Times for its article of August 27, 2006 on abnormal trading activity.¹

The analysis we did for the newspaper showed that for more than 40% of the scrutinized mergers, with a value of \$1 billion or more that were announced in the 12-month period ending in early July of this year, deviant trading behaviour was evident before the deals became public. Therefore, we believe that with the data displaying such aberrant activity it is more than reasonable to ask: "What prompted this activity? Could it be insider trading?"

The Financial Times recently reported: "Insider trading is endemic in the London stock market. The Financial Services

Authority recently found that almost 30 per cent of takeover announcements in 2004 were preceded by suspicious share price movements..."² If 30% is considered endemic what would one consider labelling a number greater than 40%?

Our company provides a Service that statistically examines the trading behavior of individual stocks. We determine if today's activity conforms to the particular stock's historical patterns, or deviates from them. When stocks do wander away from their usual pattern of behavior, as determined by our process, alerts are issued automatically. If there is no news publicly available that might explain this aberration, we deem such activity highly suspicious and irregular, going against historical norms. Our factual data and experience has shown that very often such deviations occur several days before substantial changes in the prices of the identified stocks. We have numerous examples of such identification of unusual behavior preceding the release of material news. Some of these are cited in The New York Times article and many others are referenced on our web site at www.measuredmarkets.com

Amongst our clients are a governmental investigatory agency, news services, money managers, brokers and individual investors.

So,

(A) How does Measuredmarkets Inc. use the data and

(B) What determines abnormal trading and

(C) What is considered suspicious trading behavior?

A. We look at some 3,000 [three thousand] data points for each common stock each trading day on the New York, NASDAQ (National Market), American and Toronto (TSX) Exchanges, and for some stocks as many as 5,000 data points. We examine a stock's history of trading using three measures: Closing Price, Total Volume and the Total Trades/transactions count. This last measure is distinct from Volume, albeit related to it. A stock's normal behavior pattern for each measure is then calculated, covering nine different periods, establishing short, medium and longer term pictures of the trading history. We thus have what can be considered 3-D pictures, covering each of the nine time periods, to compare against any day's activity. Each stock's history mathematically determines what is its normal pattern of behavior, automatically adjusting should it change from volatile to stable or vice versa.

B. Should a day's activity exceed the normal patterns over any of the nine time series for one or more of the three measures [Price, Volume, Trades] then it can be considered as exhibiting mathematically deviant behavior. It is aberrant, having wandered significantly away from its well-established normal path.

C. Each day, for the four markets that Measuredmarkets currently tracks, hundred of stocks are flagged as showing newly-deviant behavior. The majority of those so marked are actually reflecting news that is already in the public domain. The Service our company provides becomes useful, important and significant when stocks have deviated from their own norms AND THERE IS NO NEWS GENERALLY AVAILABLE THAT COULD EXPLAIN THE DEVIATIONS. Such activity we suggest is suspicious. Referring to The New York Times article: "The companies were not the subject of widely dispersed merger commentary during the periods of abnormal trading, nor did they make any announcements that would seem to explain the moves."³

The Measuredmarkets Service deals with real numbers from the real world. Hard data, that is in the public domain.

From the immense amount of information that is generated by the stock markets, we sift the data so that ordinary investors and interested organizations gain valuable information.

I started this company to level the playing field for investors.

" What is the use of living if it be not to strive for noble causes and to make this muddled world a better place for those who will live in it after we are gone? " ⁴

So said Winston Churchill, and let us not forget that his Mother was American.

Thank you for your time.

1 The New York Times, August 27, 2006, page 1: "Whispers of Mergers Set Off Suspicious Trading" by Gretchen Morgenson 2 Financial Times July 2, 2006 - updated July 3, 2006 12:28. 3 Op. Cit. Dundee, Scotland, on 10 October 1908