



## QSC - Heavy share manipulation

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March, 11 2009

**This article discusses general features of stock manipulation and the use of automatic trading software.**

**It is illustrated with the ongoing manipulation of shares of QSC AG (ISIN DE0005137004) in daily trade at Xetra Dax Frankfurt, Germany.**

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With the spread of automatic trading software numeric calculations and order mutations can be done very fast and therefore such software is a powerful tool for real time stock manipulation. Most often manipulation has the objective to bring a targeted share as much down as possible. Especially at smaller companies that have distressed charts one may often observe peculiar trading patterns.

Typical characteristics of downward oriented stock manipulation, are:

- Often intentionally seeking a positive opening for the day, but on very thin volume. This helps afterwards to maintain a discouraging downward trend for the day. Mostly such 'positive' openings are thus for obvious reasons dumped away very fast.
- Entering on first sight strange order numbers during the whole of the trading day, especially so called '369-numbers'. These numbers can include zero (0). For example 390 or 609 are also 369-numbers. In earlier times order books and ticker tapes often showed 112's, as well as easy recognisable inverse numbers, especially 088.

Lately however the use of 369-numbers has fast spread around the world, either as trading lots or by entering trading lots, such that day totals add up to such numbers. In the second case at first sight quite normal trading lots like 174 or 773 are then only used for the purpose of reaching a day total like 17930 (i.e. a 369-number).

At QSC we observed very often typical day openings like (data of January 29, 2009):

\* first lot 9:00:05 1,13 663 day total 663

\* second lot 9:08:05 1,11 4773 day total 4936

Such peculiar trades and opening phases give individual market participants once again the impression that some 'powerful' market participant is committed to drive share price further down.

Particularly when the same patterns recur day by day, such manipulation will clearly get more powerful day by day.

It is to be noticed that such trades are not a coincidence of course: they are targeted on purpose to influence market behaviour of other participants (i.e. keeping buyers away), as most people have access/use to real time order books and can observe those strange trades.

- In addition one often may observe ‘coincidentally’ 369-numbers for trading time, like 11:33:36. Such trades are probably entered for manipulative goals as well, especially when they coincide with trading lots or day totals of 369.
- Entering orders from another trading platform prices which three decimal numbers such as 0,881 or 0,889, generally in very small lots. These numbers can’t be executed by individual participants and obviously are entered to suggest that some a big market participant is controlling the stock and its behaviour.
- Very small trading lots like 1 or 23. From a financial standpoint such numbers make no sense at all, especially not in case of a stock like QSC that has a price around € 1,00. Obviously such small lots are entered to give individual participants the idea that a big market participant controls the share, once again in order to keep possible buyers at distance.
- Repetitive patterns like 35 and multiples such as 175 or 700, such that they can easily be recognized by individual market participants who inspect the day ticker and/or order book. Then, if the same manipulative patterns recur ‘coincidentally’ for days and weeks, they get more recognition and will be very discouraging for individuals to buy a stock. At QSC since January 26, 2009 we observed an intense use of 35 patterns. That day out of a total of 61 trades 24 trading lots where 35-multiples like 35, 70, 175 and 350. Since then those 35-patterns together with 369-patterns have ‘accompanied’ this stock being manipulated further down to even more distressed levels. Often 369- and 35-patterns were combined in single trades. On February 2, QSC opened for example at 9:00:03 (a quite perfect 369-number for time) with a trading lot of just 35 shares.

Heavily manipulated stocks often show fast decreasing trading volumes as well as increasingly thin order books, for two main reasons:

- Individual market participants who observe a) the downtrend chart and b) the depressing day chart and c) the manipulative trading lots, won’t mostly dare to buy the stock.
- Major market participants nowadays mostly use trading software to enter orders into the system. Such software of course will analyze order books and day tickers, then easily detect intensive manipulative trading patterns and as a consequence will most likely automatically postpone intended buying orders.

As a consequence of decreasing daily trading volumes and thin order books, it will generally be more easy to bring stock price further down, for three main reasons:

- Potential bigger investors who, based on fundamental analysis, will have increased interest in a beaten down stock, will then again most likely lose their interest just because of the hammered down daily volumes, which make it very difficult to buy bigger volumes around the current price level.
- Very low trading volumes and thin order books make it easier for a manipulator (and/or short seller) to bring stock price further down with relatively small short dumps.
- Low volumes and thin order books make it fairly easy to dump through technical resistance levels, thereby on purpose seeking to trigger stop losses that are typically placed below such levels.

Another powerful feature of trading software which is put in ‘manipulative mode’ is that it facilitates very fast switching and flipping of order books, fast retracting multiple lots from bid and ask, putting them in again, etc, etc. Such behaviour of course is also intended to influence and discourage individual market participants, who once again are getting more the perception that a big manipulative market participant is trying to continue the down trend.

Finally at heavy manipulated stocks one often observes at the end of the day two features:

- Numbers, especially at the ask side of order books, tend to increase towards the end of the trading day. Such big numbers however make of course no sense, given the complete dry up of trading volumes. One thus may argue that increased asks are typically not put in for sale but to finally ruin last hopes of recovery for the day.
- Towards the end of the trading day an increasing intensity of smaller dumps as an effective means to bring a small stock a few % extra down. Then, of course, there isn't much time left for recovery. This phenomenon we also often observed at QSC.

**A manipulator who intends to bring stock price down will by all means want to keep buyers away and one can observe at QSC a quite shocking cocktail of the summarized manipulative actions on a daily basis.**

March 09, 2009

As an example we next will summarize all trades of QSC at Xetra Dax as of March 09, 2009. We marked all suspected trades in bold face and added one of the following comments for explanation.

<i>fo</i>	faked positive opening with small trading lot
<i>369</i>	369-number (such as 6300 or 960) for trading lot or day total
<i>t 369</i>	use of a 369-number for trading time (such as 11:03:33)
<i>et</i>	entering manipulative orders from different platforms at equal time
<i>35</i>	repeating number patterns ( including multiples such as 175, 350, 700)
<i>112</i>	alarm number (or inverse like 088)
<i>d / dl</i>	dump / dump to day low
<i>sl</i>	small or very small lot
<i>xb</i>	trades entered from another platform with peculiar 3 decimal numbers

<b>QSC AG, trades of March 9, 2009</b>					
<b>Time</b>	<b>Price</b>	<b>Size</b>	<b>Volume</b>		
17:35:16	0,79	3158	57159		<b>(-1,25%)</b>
<b>17:28:53</b>	<b>0,779</b>	<b>100</b>	<b>54001</b>	<b>xb</b>	<b>sl</b>
<b>17:20:03</b>	<b>0,77</b>	<b>700</b>	<b>53901</b>		<b>35</b>
<b>17:12:21</b>	<b>0,78</b>	<b>350</b>	<b>53201</b>		<b>35</b>
<b>17:12:14</b>	<b>0,78</b>	<b>350</b>	<b>52851</b>		<b>35</b>
<b>16:52:21</b>	<b>0,771</b>	<b>70</b>	<b>52501</b>	<b>xb</b>	<b>35</b>
16:48:44	0,78	1500	52431		
16:47:18	0,78	438	50931		
<b>16:43:35</b>	<b>0,77</b>	<b>1088</b>	<b>50493</b>		<b>112 369</b>
<b>16:27:22</b>	<b>0,77</b>	<b>90</b>	<b>49405</b>		<b>dl 369</b>
<b>16:10:24</b>	<b>0,78</b>	<b>350</b>	<b>49315</b>		<b>35</b>
<b>16:04:46</b>	<b>0,78</b>	<b>175</b>	<b>48965</b>		<b>35</b>
<b>16:02:16</b>	<b>0,77</b>	<b>3500</b>	<b>48790</b>		<b>dl 35</b>
15:59:44	0,78	849	45290		
15:47:04	0,79	800	44441		
<b>15:46:50</b>	<b>0,78</b>	<b>26</b>	<b>43641</b>		<b>sl</b>
<b>15:13:32</b>	<b>0,78</b>	<b>274</b>	<b>43615</b>		<b>sl</b>
<b>15:05:35</b>	<b>0,77</b>	<b>196</b>	<b>43341</b>		<b>sl</b>
<b>15:03:46</b>	<b>0,77</b>	<b>104</b>	<b>43145</b>		<b>sl</b>
14:53:58	0,79	2600	43041		
14:53:42	0,78	655	40441		

13:57:34	0,78	345	39786		
<b>13:53:06</b>	<b>0,78</b>	<b>3000</b>	<b>39441</b>		<b>t 369 369</b>
13:48:17	0,79	1000	36441		
<b>13:06:19</b>	<b>0,781</b>	<b>2000</b>	<b>35441</b>	<b>xb</b>	
<b>12:54:07</b>	<b>0,789</b>	<b>100</b>	<b>33441</b>	<b>xb</b>	
<b>12:46:50</b>	<b>0,789</b>	<b>1300</b>	<b>33341</b>	<b>xb</b>	
12:41:22	0,79	2161	32041		
<b>12:20:51</b>	<b>0,78</b>	<b>155</b>	<b>29880</b>		<b>sl</b>
<b>12:01:18</b>	<b>0,781</b>	<b>50</b>	<b>29725</b>	<b>xb</b>	<b>sl</b>
<b>11:45:49</b>	<b>0,77</b>	<b>26</b>	<b>29675</b>		<b>sl</b>
<b>11:45:33</b>	<b>0,778</b>	<b>1000</b>	<b>29649</b>	<b>xb</b>	<b>et 369</b>
<b>11:45:33</b>	<b>0,78</b>	<b>700</b>	<b>28649</b>		<b>et 369 35</b>
<b>11:20:02</b>	<b>0,781</b>	<b>30</b>	<b>27949</b>	<b>xb</b>	<b>sl 369</b>
<b>11:06:34</b>	<b>0,789</b>	<b>500</b>	<b>27919</b>	<b>xb</b>	
<b>10:54:52</b>	<b>0,78</b>	<b>43</b>	<b>27419</b>		<b>sl</b>
<b>10:52:47</b>	<b>0,77</b>	<b>625</b>	<b>27376</b>		<b>dl</b>
<b>10:52:47</b>	<b>0,78</b>	<b>175</b>	<b>26751</b>		<b>35</b>
<b>10:45:53</b>	<b>0,79</b>	<b>180</b>	<b>26576</b>		<b>sl</b>
<b>10:33:06</b>	<b>0,79</b>	<b>329</b>	<b>26396</b>		<b>t 369 369</b>
<b>10:24:46</b>	<b>0,80</b>	<b>150</b>	<b>26067</b>		<b>sl</b>
<b>10:20:14</b>	<b>0,80</b>	<b>1</b>	<b>25917</b>		<b>sl</b>
<b>10:16:20</b>	<b>0,79</b>	<b>1</b>	<b>25916</b>		<b>sl</b>
<b>10:15:20</b>	<b>0,80</b>	<b>175</b>	<b>25915</b>		<b>35</b>
<b>10:03:54</b>	<b>0,79</b>	<b>5000</b>	<b>25740</b>		<b>d</b>
10:03:45	0,79	900	20740		
9:59:29	0,79	3770	19840		
<b>9:47:51</b>	<b>0,771</b>	<b>700</b>	<b>16070</b>	<b>xb</b>	<b>35</b>
<b>9:47:12</b>	<b>0,78</b>	<b>4600</b>	<b>15370</b>		<b>d</b>
<b>9:46:45</b>	<b>0,78</b>	<b>1400</b>	<b>10770</b>		<b>35</b>
<b>9:39:04</b>	<b>0,789</b>	<b>2770</b>	<b>9370</b>	<b>xb</b>	
<b>9:07:51</b>	<b>0,77</b>	<b>3000</b>	<b>6600</b>		<b>dl 369 369</b>
<b>9:05:58</b>	<b>0,80</b>	<b>3400</b>	<b>3600</b>		<b>d 369</b>
<b>9:00:16</b>	<b>0,82</b>	<b>200</b>	<b>200</b>		<b>fo</b>

## Conclusion.

Once again March 9, 2009 intense manipulation from the start was able to completely beat down trading volume of QSC to just 57.159 pieces, for only about € 45.000 in turnover.

It was one of the lowest trading volumes for QSC in many years with just 54 trades altogether.

Of course such low volumes are rather peculiar for a stock with a free float of about 75 million shares.

About 80%(!) of the trade seem suspect to have been executed for manipulative purposes only.

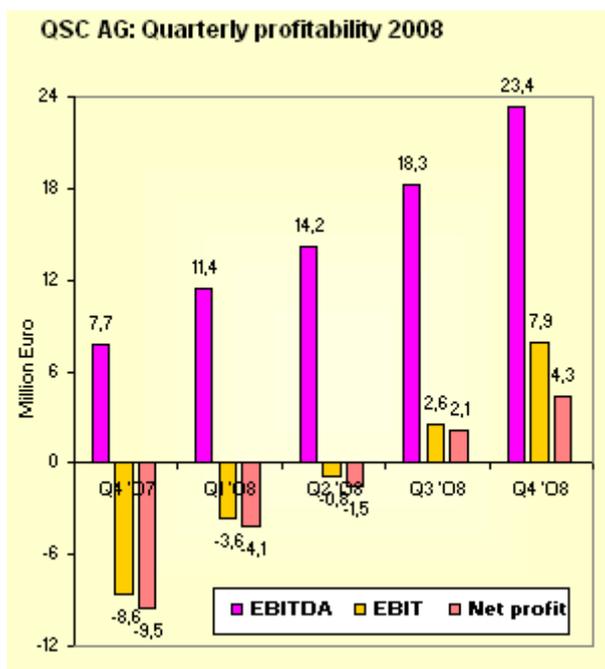
After two bigger dumps at 10:03:45 and 10:03:54 respectively (which wiped out a bigger bid), immediately a manipulative 35 / 1 play was started as well as fast flipping of order bid (in an about 5 seconds interval pattern 0,78-0,77-0,78-0,77 and so on).

This action around 10 o'clock was once again so effective that in the almost 8 trading hours to the closing bell only 32.000 more shares were traded. Towards the end of the day there was an intense use of 35-numbers.

It is to be noticed that in 2007, when QSC was operational far less successful and still more or less had to prove the validity of its business model, every single day on average 2 to 4 million Euros in QSC stock was traded.

As a further result, the manipulative stock action managed to reach a negative close for the 8th consecutive day as well as a fresh multiple year closing low. This happened on a day where the broader market (Xetra and TecDax) at least technically managed to recover from an opening loss into green territory. Since QSC at February 26 presented record numbers for the year 2008, that beat expectations of **all** analysts, the stock was manipulated down another 26% in just 8 trading days!

As a consequence of heavy downward oriented manipulation on March 4, 2009 (reindexing day) QSC was very much at risk to be removed from TecDax. Generally stocks are removed from indices while stock prices are beaten down because of very poor operational performance. QSC however, as noted, had a record 2008 by all means, managing to almost double its operational profit (EBITDA) and in Q4 2008 even tripling this milestone against the same quarter of 2007 (see figure below). More details on operational results and telecom industry at <http://www.qsc-anleger.de/sector>



**If continued manipulation is supported by very negative commenting of some analysts it is of course far more easy to hammer down stocks contrarily to operational progress, as can be clearly proved by the QSC case.**

QSC was in 2008 very aggressively and intensely commented by three out of 15 analysts that follow the stock according to QSC's website. We mean the analysts of JP Morgan (who in 2007 also was joint global coordinator for owner Apax Capital in bringing industry peer Versatel AG to market), HSBC and Commerzbank. Kepler Securities, for example, maintained February 26, after the presentation of the numbers for the year 2008, its fair target price for QSC of EUR 3,50. Those three analysts however, once again were actively and aggressively bringing their targets still further down to an average of EUR 1,00, as well made their updates on the stock (making use of 'Aktiencheck updates') once again very visible to private market participants.

Though QSC at February 26 already had a very distressed and unusual valuation discount of about

70% against sector peers, those analysts guided QSC still further down thereby completely negating valuations in the telecom industry.

March 10, 2009

Just for additional illustration we will also present the first three very 'typical' trading lots of the next trading day, March 10.

<b>QSC AG, opening trades of March 10, 2009</b>				
Time	Price	Size	Volume	
<b>9:27:40</b>	<b>0,79</b>	<b>333</b>	<b>1648</b>	<b>369</b>
<b>9:26:16</b>	<b>0,79</b>	<b>1015</b>	<b>1315</b>	<b>35</b>
<b>9:00:14</b>	<b>0,79</b>	<b>300</b>	<b>300</b>	<b>369</b>

The first three trades speak for themselves and clearly seemed to be so very intimidating to other market participants that the next trade in QSC went on as early as 10:27:43, and the 5<sup>th</sup> trade for the day at 11:16:32!

Merely due to extreme recovery of international markets (about 5 to 6% on average) the manipulator let further that day relatively loose.

As a consequence of continued daily stock manipulation and aggressive commenting by those three out of 15 analysts, the valuation of operational profit (EBITDA) of QSC, was in the last 14 months alone beaten down a staggering 90%. As if every Euro profit 14 months later is just worth only 10 Eurocents (see table below)

<b>QSC AG</b>	<b>Market Cap./Revenues</b>	<b>Market Cap. /EBITDA</b>
Start of 2008	1,18	11,33
March 9, 2009	0,24	1,17
Change	-79%	-90%

As a result, according to objective and completely transparent calculations as presented on <http://www.qsc-anleger.de/sektor>, QSC was at the close of March 9, 2009 beaten down to a staggering 86% valuation discount against sector peers in the telecom industry!

Current enterprise value (market cap plus net debt) of QSC is roughly equal to half the value of the investments in infrastructure and new clients QSC made in the years 2007 and 2008 alone!

It is to notice however, that in 2008 QSC made the most operational progress of all companies in the industry and after years of investing in assets, convincingly managed to prove the validity of its business model.

Furthermore QSC has (other than most companies in the industry) a very strong balance sheet with as of December 31, 2008 net debt of only 12 Million Euro, or just 3% of annual revenues.

Conclusion

In our opinion it is utmost necessary to start investigations into the way QSC AG has been traded in the years 2007-2009, but also to improve the regulatory framework for stock markets as well as a better control of big market participants in case of very peculiar ticker tapes.

PG, March 11, 2009

Netherlands

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Disclaimer : data has been collected with utmost care, and is believed to be correct, however author cannot accept any responsibility