

# CBOE Proposes A Rule to Quell 'Dorfman Effect'

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NEW YORK — Chicago's stock-options exchange is taking aim at the phenomenon known as the "Dorfman effect."

In an attempt to limit what it describes as abuses of its automated trading system for retail investors, the Chicago Board Options Exchange is seeking regulatory approval to suspend temporarily automatic processing of orders to buy or sell options on stocks mentioned by a "well-known securities analyst" on cable television. CNBC's Dan Dorfman wasn't explicitly named, but his regular daily broadcasts often lead to frenzied trading in the stocks he mentions.

Under the current system, the CBOE says in a filing with the Securities and Exchange Commission, viewers watching a broadcast by a commentator can use high-speed computers to jump into the options market before it has had time to adjust prices to reflect a change in the price of the underlying stock.

That, it says, can contribute to the commentator's reporting having "a regular, albeit short-lived, destabilizing impact on the options market."

"It's a quirk in the system that's kind of like allowing some speedy gamblers to bet on a horse race after the finish line has been crossed," says Michael L. Meyer, a lawyer with Schiff Hardin & White in Chicago, who provides legal advice to the CBOE. "The rule change will prevent people who have a TV at their left hand and their computer at their right from continuing to fool the system."

Duke Chapman, chairman of the CBOE, says exchange officials have spotted examples of what he calls "unusual trading situations" at times when "people with a high profile in the investment community" have publicly discussed their views of stocks that have options trading on the CBOE. He declined to discuss specific cases.

If the new rule, already being referred to by some stock and options traders as "the Dorfman rule," is approved by the SEC, it could take effect by mid-November, Mr. Meyer says.

Not all trading would be affected: On the CBOE floor, traders would be able to closely monitor the change in price of a stock in response to a broadcast by Mr. Dorfman or some other commentator, and quickly adjust the pricing of call or put options on the stock in question.

"It just takes a few extra seconds for that change to take place in the computer system, and there are some people that seem to be taking advantage of that very narrow window," Mr. Meyer adds.

Meanwhile, Mr. Dorfman says he's well aware of the impact he has on the market. "People should never buy or sell a stock based on what I say," he adds. "I'm not a broker, I'm not a money manager, I'm not an analyst." Still, he says he sees no reason to change the way he presents his material, adding that if rule changes by markets such as the CBOE can render the market "more sane" and "orderly," he will support them.