Public Trust and Market Integrity: How Insider Trading and Power Distort Fairness

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Abstract:

Upholding public confidence is crucial in maintaining the stability of societal institutions. This article analyzes the ongoing threats to the integrity of the United States' financial markets that result from inadequately addressed conflicts of interest. In particular, it examines the fundamental failures of the enforcement of insider trading laws, with a focus on congressional stock trading. Furthermore, by building on examples of political influence on markets, such as the market-moving effects of presidential statements, the article investigates the emergence of prediction markets. The subsequent discussion details the methods that platforms use to bypass existing legislation and emphasizes the risks of manipulation in these loosely regulated markets that lack transparency. Together, these issues reveal how flaws in modern law allow those with access to privileged information and significant power to gain financial advantages that conflict with the basic principles of fairness.

Article

Every market relies on information. Every democracy relies on trust. When the two intersect without transparency, both begin to erode. The passage of the Securities and Exchange Act of 1934 marked a turning point in United States financial regulation, establishing the Securities and Exchange Commission (SEC) to restore confidence in capital markets following the Great Depression. The SEC attempts to preserve fairness by limiting how information can be used, yet those limits lose meaning as enforcement struggles against both the growing complexity of markets and the influence of political and financial self-interest.

Under Section 10(b) of the Securities and Exchange Act, an individual may not use any "device, scheme, or artifice to defraud."[1] In practice, courts have interpreted this provision as prohibiting the use of material nonpublic information in connection with the purchase or sale of securities, effectively amounting to a general prohibition on insider trading. Since the passage of the Securities and Exchange Act, the SEC has pursued numerous insider trading cases across the private sector, yet prosecutions involving members of Congress have been almost nonexistent, with just two cases ever brought in U.S. history. Are members of Congress uniquely law-abiding, or does their position afford them protection that others do not have? To understand this disparity, it is necessary to examine how insider trading law has evolved and why its enforcement has remained selectively applied.

The Securities and Exchange Act, while significant in establishing a broad prohibition on insider trading, left ambiguity surrounding its scope. Subsequent legislation, including the Insider

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[1] C.F.R. § 240.10b-5 (2024), https://www.law.cornell.edu/wex/rule_10b-5.

Trading Sanctions Act of 1984 and the Insider Trading and Securities Fraud Enforcement Act of 1988, further clarified what constituted illegal insider trading and strengthened penalties for violations. However, it was not until 2012 that congressional trading was explicitly addressed by law, with the Stop Trading on Congressional Knowledge (STOCK) Act affirming that members of Congress and their staff are subject to insider trading prohibitions.[2] The STOCK Act also established a disclosure requirement, mandating that any purchase or sale of securities exceeding $1,000 by a member of Congress must be publicly disclosed within 30 to 45 days. While the STOCK Act represented meaningful progress, the incentives for members of Congress to engage in insider trading were not eliminated. Requiring disclosure within 30 to 45 days does not prevent a member of Congress from trading on material nonpublic information, waiting for the information to become public, and then reporting the trade after the investment has appreciated. Additionally, the penalties for failing to disclose trades, which include a $200 first offense fine and $200 per month for subsequent late filings, are minimal and provide little real deterrent. A 2021 analysis of financial filings of congressional staff found that at least 182 high-ranking officials violated the STOCK Act through overdue trade disclosure from January 2020 to mid September 2021.[3] The Campaign Legal Center has actively monitored these issues, filing complaints against seven members of Congress in 2021, and more recently filing a complaint in 2024 against Representative Byron Donalds (R-FL) for over 100 similar violations.[4] [5]

Given the widespread noncompliance, Congressional self-regulation has repeatedly proved its limitations, as reforms like the STOCK Act continue to fall short of fully addressing the problem. Continuing to allow members of Congress to trade securities sustains conflicts of interest and enables lawmakers to profit from legislation that they have influence or advanced knowledge of. Without a complete ban, policy decisions risk being driven by personal financial gain rather than the public interest that these members have an obligation to uphold. This concern is widely shared by the public: a survey conducted by the University of Maryland found that 86 percent of respondents support a complete ban on individual stock trading by members of Congress, while 87 percent favor the same restriction for the President, Vice President, and Supreme Court Justices.[6]

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[2] Stop Trading on Congressional Knowledge (STOCK) Act, Pub. L. No. 112-105, 126 Stat. 291 (2012), https://www.congress.gov/bill/112th-congress/senate-bill/2038.

[3] Kimberly Leonard, Camila DeChalus, and Warren Rojas, At least 182 high-ranking congressional staffers have violated a federal conflict-of-interest law with overdue disclosure of their personal stock trades, BUSINESS INSIDER, (Dec. 13, 2021, 5:00 AM), https://www.businessinsider.com/congress-staff-violated-stock-act-conflictsofinterest-possible-2021-12.

[4] BREAKING: Campaign Legal Center Files Complaints Against Seven Members of Congress for Failing to Disclose Stock Trading Activity, CAMPAIGN LEGAL COUNSEL, (Sep. 22, 2021), https://campaignlegal.org/press-releases/breaking-campaign-legal-center-files-complaints-against-seven-members-c ongress#:~:text=All%20members%20of%20Congress%20and,for%20their%20own%20financial%20gain.

[5] Sophia Gonsalves-Brown and Maha Quadri, Congressional Stock Trading Continues to Raise Conflicts of Interest Concerns, CAMPAIGN LEGAL COUNSEL, (Sep. 5, 2024), https://campaignlegal.org/update/congressional-stock-trading-continues-raise-conflicts-interest-concerns.

[6] Steven Kull, Evan Fehsenfeld, Evan "Charles" Lewitus, and JP Thomas, Survey: Ban on Stock Trading for

Despite overwhelming bipartisan support, a complete ban on individual stock trading has yet to pass. With increased public pressure, however, multiple efforts aimed at accomplishing this goal have been proposed in recent years. The Ending Trading and Holding In Congressional Stocks (ETHICS) Act was introduced by a bipartisan group of lawmakers in 2023 and aims to prevent members of Congress from buying or selling stocks while in office, imposing substantial monetary penalties for violations.[7] The bill has since been placed on the Senate calendar, though no further action has been reported. Another proposal that has emerged is the Preventing Elected Leaders from Owning Securities and Investments (PELOSI) Act, introduced by Representative Mark Alford (R-MO) and Senator Josh Hawley (R-MO), which seeks to ban members of Congress and their spouses from trading individual stocks.[8] The PELOSI Act, which has yet to advance in Congress, is named after Congresswoman and Former Speaker of the House Nancy Pelosi (D-CA), who is widely regarded as one of the most prominent examples of political insider trading. To illustrate the scale of her investment activity, one analysis using information from investment data platform Quiver Quantitative estimates that Nancy Pelosi and her husband achieved gains of approximately 16,930 percent over a 37 year period in Congress, far surpassing the Dow Jones Industrial Average's increase of roughly 2,300 percent over the same timeframe.[9] [10] [11] While these astronomical returns do not guarantee that Representative Pelosi utilized material nonpublic information, achieving such remarkable gains through ordinary market activity alone would be highly unusual.

Even if the exceptional returns achieved by politicians like Representative Pelosi or Representative Donalds are not derived from material nonpublic information, the appearance of possible conflicts of interest is what ultimately undermines public trust. Researchers at the Rady School of Management at the University of California at San Diego confirmed this effect in May 2025, finding that public awareness of politicians' stock trading undermined both congressional legitimacy and compliance with the law.[12] Elected officials run campaigns to persuade the public to trust them with the authority to enact policies aligned with their stated beliefs. When the public's trust in these officials diminishes, it weakens the integrity of the government and reduces confidence in democratic institutions. These consequences negatively affect all

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Members of Congress Favored by Overwhelming Bipartisan Majority, DIGITAL REPOSITORY AT THE UNIVERSITY OF MARYLAND, (Jul. 2023), https://drum.lib.umd.edu/items/6dbca567-f940-4897bde102610cfb5ef6.

[7] Ending Trading and Holdings in Congressional Stocks (ETHICS) Act, S. 1171, 118th Cong. (2023).

[8] Preventing Elected Leaders from Owning Securities and Investments (PELOSI) Act, S. 58, 118th Cong. (2023).

[9] Gabrielle Fahmy and Geoff Earle, Nancy Pelosi made $130M in stock profits during Congress career — a return of ,930%, N.Y POST, (Nov. 28, 2025, 9:15 AM), https://nypost.com/2025/11/08/us-news/nancy-pelosi-made130million-in-stock-profits-in-her-37-years-in-congress -a-profit-of-16930/.

[10] ,930%, N.Y POST, (Nov. 28, 2025, 9:15 AM), https://nypost.com/2025/11/08/us-news/nancy-pelosi-made130million-in-stock-profits-in-her-37-years-in-congress -a-profit-of-16930/.

[11] Quiver Quantitative, Nancy Pelosi trading dashboard, https://www.quiverquant.com/congresstrading/politician/Nancy%20Pelosi-P000197/net-worth.

[12] Christine Clark, Congressional Stock Trading Severely Undermines Public Trust and Compliance with the Law, U.C.S.D TODAY, (May 20, 2025), https://today.ucsd.edu/story/congressional-stock-trading-severelyunderminespublic-trust-and-compliance-with-thel aw.

Americans, highlighting the importance of eliminating conflicts of interest created when members of Congress are allowed to trade securities while in office.

The concern over political insider trading extends beyond the purchase or sale of securities, applying also to situations in which public officials can influence markets in ways that may benefit specific investors. A notable example occurred in April 2025, following President Donald Trump's "Liberation Day" announcement of sweeping global tariffs. From market close on April 2nd, when the tariff announcement was made, the S&P 500, a benchmark index for the U.S. stock market, dropped approximately 14.74 percent from peak to trough. This represented a drop of a magnitude not observed since the market volatility during the 2008 financial crisis. Amid this volatility spike, on April 9th at 9:37 a.m. ET, President Trump posted on Truth Social, a social media platform owned by Trump himself, "THIS IS A GREAT TIME TO BUY!!! DJT." Just several hours later, Trump announced a 90-day pause in the rollout of the Liberation Day tariffs, causing the S&P 500 to jump approximately 10.77 percent. Although President Trump publicly encouraged people to buy securities, many investors were skeptical, given the publicly available information at the time. Given the timing of his post, it is reasonable to conclude that Trump was aware of the impending tariff pause, creating the potential for others with the same knowledge to profit. President Trump is no stranger to market-moving statements, having repeatedly influenced asset prices through his public communications. However, when occupying the highest office in the United States, a higher standard of conduct must be upheld. When public officials at this level act in such a manner, it risks damaging public trust, creating market instability, and fueling turmoil across the nation.

The focus of influence in politics and markets has since shifted toward new avenues where persuasion can directly shape perceptions and outcomes. This trend is exemplified by the advent of prediction markets, the newest evolution of financial markets. Platforms such as Kalshi, Polymarket, and PredictIt have recently emerged in the United States and have rapidly gained traction among traders and the general public. Prediction markets function as collective forecasting tools, allowing participants to buy and sell contracts supposedly based on the probability of future events. These markets convert information, sentiment, and expectations into tradable assets that reflect collective predictions. The idea behind prediction markets seems brilliant, tapping into the same instinctive thrill that arises from thinking, "I bet this will happen." Issues emerge, however, when the simple act of predicting turns into a calculation of "How can I make this outcome happen?" Once one places money on an outcome, there becomes a financial incentive to attempt to sway the odds further in one's favor. It is unlikely that an average participant could significantly influence the outcome of a prediction market; however, when powerful or influential figures take actions aligned with what the market anticipates, they can actively shift the likelihood of the predicted event occurring. For example, at the end of its Q3 2025 earnings call, Coinbase, a major cryptocurrency exchange, CEO Brian Armstrong became aware of a prediction market wagering on the words that would be said during the call. He then deliberately spoke each predicted word, commenting, "I just want to add here the words Bitcoin, Ethereum, blockchain, staking, and web3 to make sure we get those in before the end of the call," guaranteeing that participants who bet "yes" would win.[13] While a relatively harmless stunt, Armstrong's actions carry greater implications, illustrating how manipulation in prediction markets can influence real-world events that materially affect the lives of millions, and in some cases, billions, of people.

One of the most noteworthy prediction markets to date centered on forecasting the outcome of the 2025 New York City mayoral election. The race, which featured eventual winner Zohran Mamdani, former Mayor Andrew Cuomo, and Curtis Sliwa, drew considerable attention as the predicted results on both Polymarket and Kalshi captured public interest. In the weeks leading up to the election, Mamdani consistently appeared as the frontrunner on both platforms. Unlike traditional polls, which rely on sampling and statistical methods, these market odds are determined by trading activity and liquidity, meaning that a participant with a vested interest and sufficient resources can significantly move the probabilities. This liquidity-based mechanism is well understood by experienced traders, who recognize that market probabilities can be shifted with relatively modest capital. Research from Columbia University further underscores this fragility, revealing that much of Polymarket's reported trading volume is artificially inflated. The study identified that up to 60 percent of total volume in December 2024 showed signs of wash trading, and although the figure later decreased, it rose again to over 20 percent by October 2025.[14] To the untrained eye, however, these manipulated probabilities can appear as credible signals, creating a persuasive effect. While this might not be concerning if prediction markets remained relatively obscure, both Polymarket and Kalshi have aggressively marketed their platforms. Specifically, Polymarket ran many large-scale advertisements throughout New York City touting Zohran Mamdani as having a 94 percent chance of winning the election. This visibility amplifies the persuasive power of the markets. To passersby, seeing Mamdani projected as a 94 percent favorite reinforces the perception that his victory is nearly certain, even though these probabilities are subject to possible manipulation. This effect operates in two ways. First, supporters of Mamdani may feel less motivated to go to the polls on election day, assuming that his lead makes their participation unnecessary. On the other hand, voters who oppose Mamdani may feel disheartened by the odds, perceiving their votes as ineffective and concluding that participating in the election will not be enough to achieve their desired outcome. Together, these psychological effects can subtly distort behavior and transform what should be a true reflection of democratic choice into a landscape where misleading market signals prevail.

Despite their recent popularity, prediction markets have not escaped regulatory concern. Existing laws were designed to govern conventional financial transactions and gambling separately, yet prediction markets operate in a gray area that exploits the differing legal standards between the two. By designing their event contracts to resemble financial instruments like derivatives, they have circumvented the restrictions that apply to traditional wagering. For example, to legally offer sports gambling, sportsbooks such as DraftKings and FanDuel must hold state gambling licenses, verify user age, and provide responsible-gambling protections.

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[13] Liam Kelly, Coinbase CEO concludes earnings call by swaying prediction markets. 'This was fun', YAHOO FINANCE, (Oct. 31, 2025), https://finance.yahoo.com/news/coinbase-ceo-concludes-earnings-call-133657276.html.

[14] Allen Sirolly, Hongyao Ma, Yash Kanoria, and Rajiv Sethi, Network-Based Detection of Wash Trading, SSRN, (Nov. 17, 2025), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5714122.

Kalshi and Polymarket, on the other hand, have offered similar wagers nationwide without adhering to these regulations. This regulatory ambiguity has not gone unnoticed. In November 2025, a federal class action lawsuit was filed against Kalshi, alleging that it, positioned as a federally regulated exchange, ran illegal sports betting operations.[15] [16] The lawsuit, *Pelayo et al v. Kalshi Inc. et al*, further asserts that Kalshi partners with hedge funds to function as a market maker that profits when consumers incur losses.[17] Consistently marketing itself as a platform where users can wager against one another rather than against the house, this practice directly contradicts the image that Kalshi projects. Moreover, this positioning has attracted consumers who are wary of traditional sportsbooks, where the odds are always stacked in the house's favor, into risking their money under the impression that they face a fairer system. Kalshi's deliberate targeting of younger individuals, who are most susceptible to gambling addictions, makes this even more concerning. A September 19th, 2025, post, included in the court filings, revealed that Kalshi briefly announced, before quickly retracting, plans to partner with ten universities via KalshiU, an initiative intended to attract its next 100 million users.[18] While the lawsuit is still pending, it draws attention to the vulnerabilities consumers face in prediction markets that function with little regulation and insufficient transparency.

In an age of extraordinary financial opportunity, knowledge itself carries immense financial value. The absence of adequate modern regulation and enforcement permits those who obtain inside information to act with impunity. When accountability is not guaranteed, markets must depend on the integrity of their participants. In such an environment, self-interest and greed gain excessive influence, often at the expense of fairness. From congressional stock trading to prediction markets, it is evident that unaddressed legal loopholes undermine public confidence not only in markets, but also in the political institutions that form the foundation of democracy. To restore democratic integrity, it is imperative to prohibit congressional stock trading, to establish clear, enforceable regulations for emerging prediction markets, and to strengthen the transparency of the United States' financial system.

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[15] Crystal Pelayo et al. v. Kalshi Inc. et al., Complaint—Class Action, No. 1:25-cv-09913 (S.D.N.Y.) (on file with the U.S. District Court for the Southern District of New York), https://flregwatch.com/wpcontent/uploads/2025/12/2416000-2416604-https-ecf-nysd-uscourts-gov-doc1127138637117.pdf.

[16] Pelayo v. Kalshi Inc., No. 1:25-cv-09913 (S.D.N.Y. filed Nov. 2025), https://dockets.justia.com/docket/newyork/nysdce/1:2025cv09913/653849. .

[17] Pelayo et al., supra note 5.

[18] Pelayo v. Kalshi Inc., No. 1:25-cv-09913 (S.D.N.Y. filed Nov. 2025), https://dockets.justia.com/docket/newyork/nysdce/1:2025cv09913/653849