



Effective IR in the Changing Capital Markets

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Panelists:

Richard Barry, Vice President, New York Stock Exchange MAC Desk

Nicole Olson, Head of Issuer Services, Liquidnet

Stephen Chalmers, Managing Director, The NASDAQ OMX Group

Key Takeaways

Today, about half of all securities trading takes place “off-exchange,” through dark pools, alternative trading systems such as Liquidnet, or electronic communications networks. Investors increasingly bypass traditional exchanges and trade on these platforms, which offer them greater anonymity in executing their buy/sell plans, as there is no obligation to publish bid/offer quotes to the rest of the world until after the trade is executed. While this anonymity enables investors to “hide their hands,” the lack of transparency puts other investors at a disadvantage because they have no ability to gauge the true level of demand for a stock in the marketplace. This lack of transparency also makes it harder for investor relations officers to know who is behind the trading in their companies’ stocks.

Algorithmic or high-frequency trading (HFT) programs – where trading is executed based on sophisticated mathematical and probability models designed to predict and take advantage of small share-price movements – represents about 90 percent of all volume traded on the exchanges. Because these are computer programs, HFT trading is done without consideration of a company’s fundamentals. HFT is more prevalent in large-company stocks that have high trading volume and a modest share price. HFT activity often is concentrated around news or events that drive increased trading volume. HFT traders can potentially manipulate the stock price by increasing a company’s trading volume and volatility. Rich Barry would like to see regulators require HFT traders to become designated market makers as a way to maintain market orderliness, ensure the liquidity of the stocks they trade, and bear the liquidity risk that their programs may create.

Investor relations officers can get help from the exchanges’ market surveillance desks and insights on alternative trading systems by developing relationships with traders. Their trading desks are open to your calls, the panelists said. Traders have contacts on the buy-side and sell-side and can help you see what types of buyers and sellers are active. IROs also should monitor technical trading metrics. One example: a share price that moves below its 200-day average can trigger increased trading. However, the most important contributors to trading activity remain company performance and your ability to get your company’s story out there despite all the market noise created by trading technologies.

– Lavonne Kuykendall