Brave New World of Stock Price Movement: The Dynamics of Global Trading

Panelists:
Adam Frederick, CEO, Oxford Intelligence Partners
Tim Quast, President and Founder, ModernIR
Rajeev Ranjan, Policy Advisor, Financial Markets Group, Federal Reserve Bank of Chicago

Moderator:
Leslie Kratcoski, Vice President, Investor Relations, Snap-on Incorporated

Key Takeaways

- **More than ever before, a diverse set of dynamics drives markets.** The panelists firmly debunked the "sacred cow" of investor relations: that active investors are solely (or even primarily) responsible for setting your publicly traded company's stock price and volume.

- **Price discovery is driven by market structure and dynamics that are completely unrelated to any specific company.** Rajeev Ranjan from the Chicago Federal Reserve Bank showed a complex diagram of the financial markets infrastructure that dramatically illustrated the interconnectedness of global financial markets for equities, options and futures. We've grown beyond a focus on the NYSE trading floor into a diversified industry of exchanges, clearinghouses, traders and regulators. While public investors expect the best execution and price in those markets, that's not necessarily the reality, said every panelist.

- **Trading activity of market intermediaries – high frequency traders, quant traders, risk managers and ETFs – sets most market prices.** Fast traders arbitrage their holdings by trading all markets at once – equities, options, futures, currencies and bonds. As an example of how one market affects the next, Tim Quast of ModernIR cited the global market plunge in August that occurred when The People's Bank of China devalued the yuan.

- **Ranjan made the point that until regulators catch up to trading technology, IROs need to understand algorithmic trading and new trading technologies.** Dark pools and proprietary traders are not regulated. Individual exchanges have their own rules that, under certain circumstances, release market makers from the obligation of opening up a trading day. He added that the bond market is regulated with "a light touch," which makes the cash price of bonds "completely opaque."

- **Why does market structure matter?** Equity is the most fundamental measure and foundation of a public company. Equity price underlies a company's balance sheet, net worth and reputation. To this end, IROs should shift their focus from being a communication specialist to being a stock price strategist, said Quast. IR is primarily about matching the product to the consumer (investor) and every IRO should cultivate a deep palette of investor relationships as a result.

– Bess Gallanis