



NIRI WEBINARS



Understanding Wild Markets in the Age of the Virus

April 15, 2020



Q & A

Submit your questions in the Q&A chat window

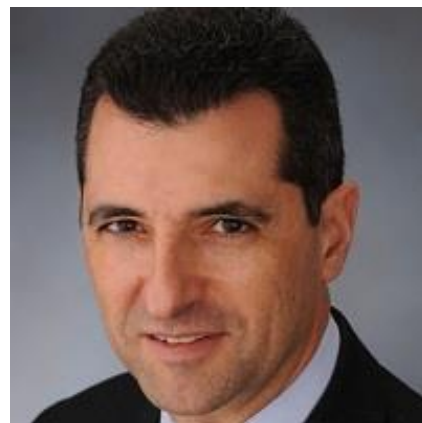
ABOUT

ModernIR is the **No.1 Market Structure Analytics™ firm**, third largest market-intelligence provider to US-listed issuers, market structure technology leader. We are **pioneers in predictive behavioral analytics** in US equities, and have built proprietary software, algorithms and models to translate complex market data into trading and investment behaviors.

Speakers



Tim Quast
President and Founder
ModernIR



Joe Saluzzi
Partner and Co-Founder
Themis Trading LLC





TRACK record

We are **nationally recognized experts on US equity market structure**, and have grown into industry educators and thought leaders. We frequently serve as financial media experts and have provided written testimony on market structure for Congress.



Longtime top national, chapter sponsors of the investor-relations professional association, NIRI.

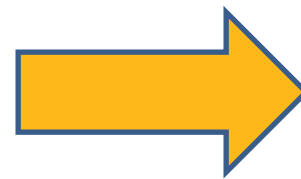


Market Structure Affects the Ingredients

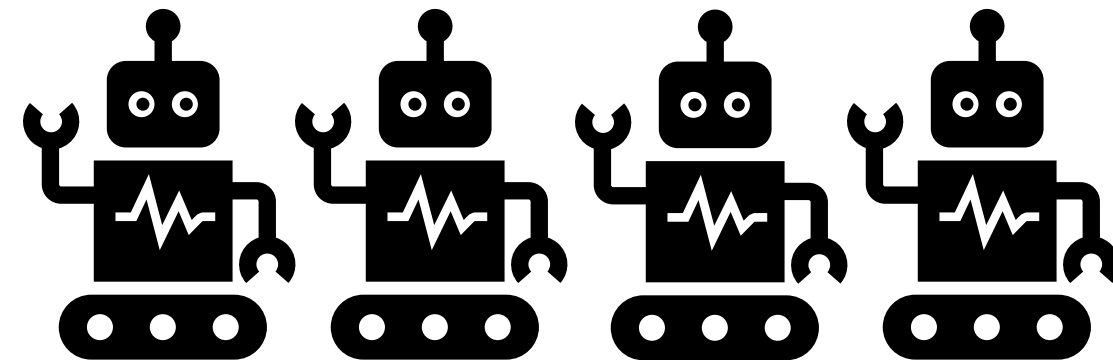


The Ingredients:

- Business fundamentals
- Asset allocation
- Monetary policy
- Politics
- Technical factors
- Macro factors
- Risk management
- Speculation



The Laboratory: The Stock Market



The LABORATORY is as big a factor in how stocks behave as the INGREDIENTS

The Lab: Regulation National Market System (“Reg NMS”)

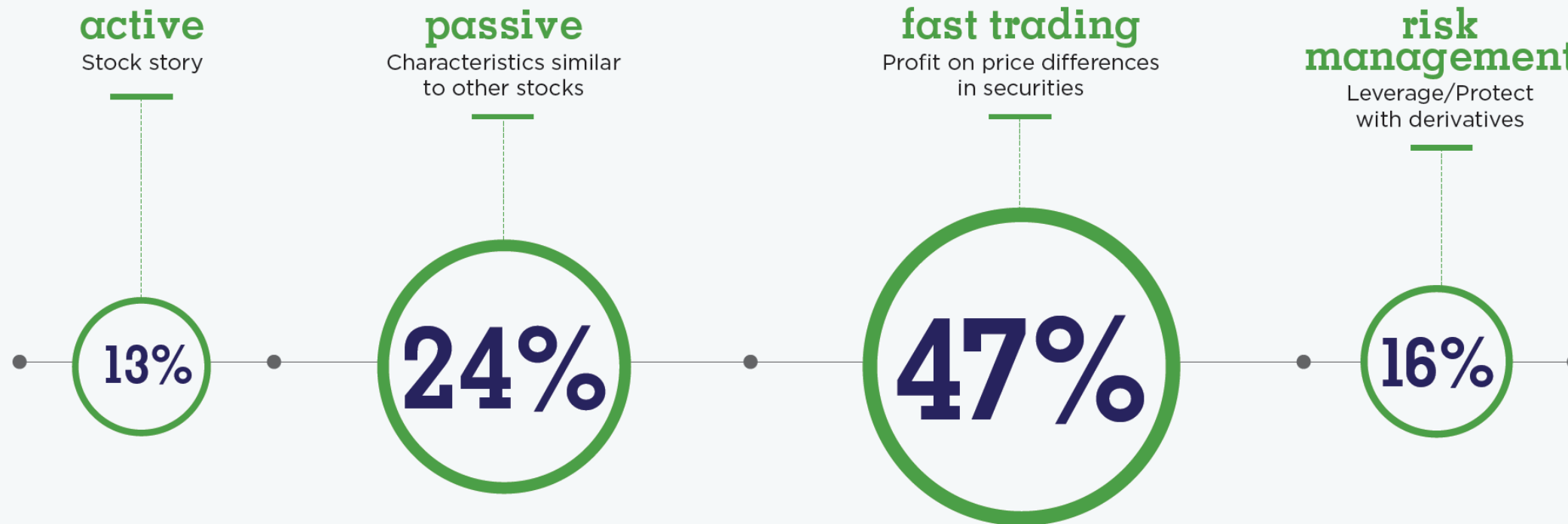


- 1. Data Rules.** Governs how data is compiled, shared, monetized (so DATA becomes an end unto itself).
- 2. Quote Rules.** Stock priced at \$1 or higher quote in penny increments (so QUOTING becomes an end).
- 3. Price Rules.** All stocks must trade at a single national best price (so PRICE becomes an end).
- 4. Access Rules.** Uniform access to prices, data, (so managing ACCESS TO QUOTES, PRICES, is an end).

“The Lab” is a Store with Demographics



4 REASONS INVESTORS AND TRADERS BUY/SELL



*Source: 200-day averages at Jan 31 2020, ModernIR

The Great Coronavirus Correction of 2020 And the Role of Each Demographic Group



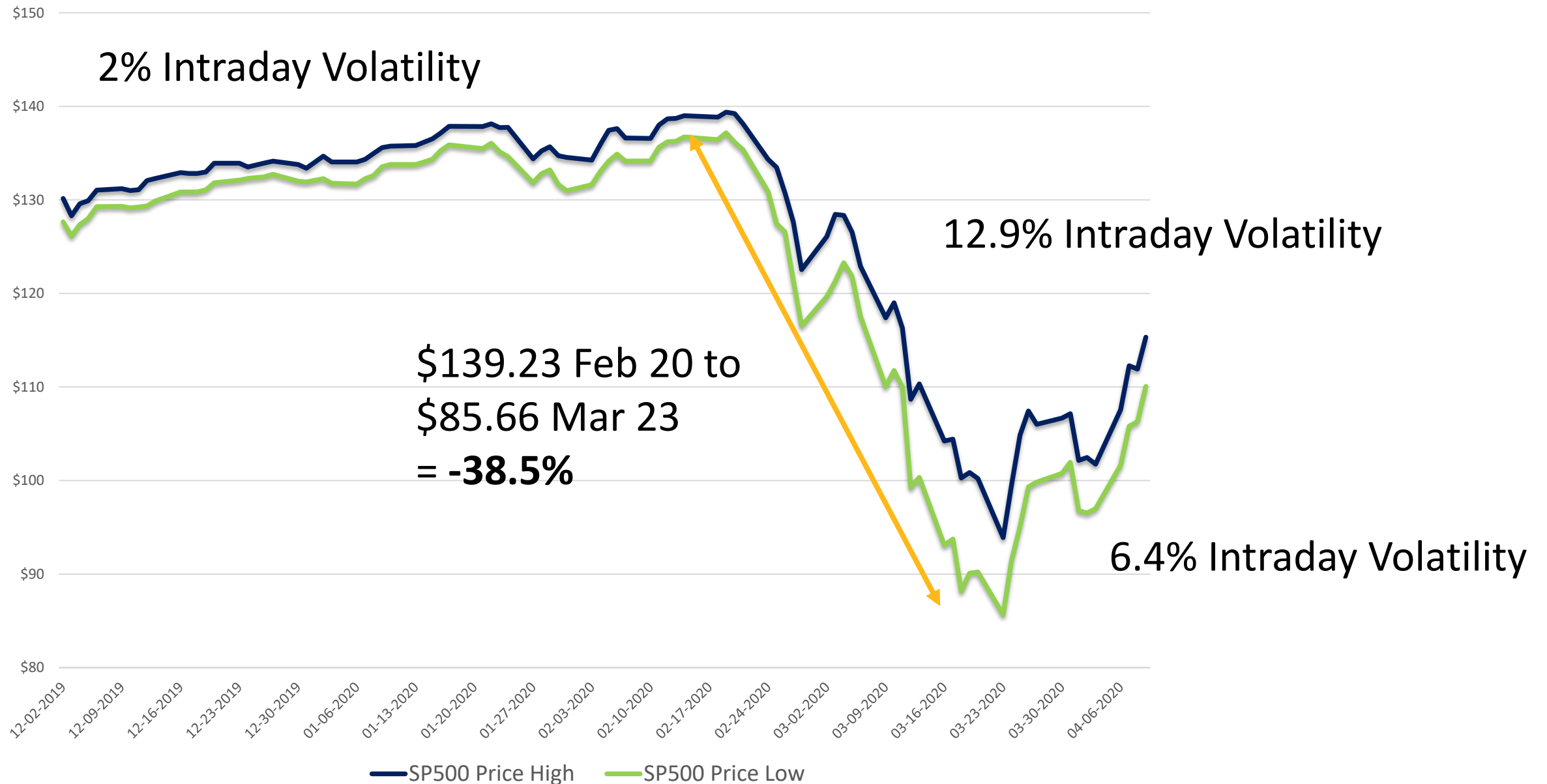
Immense Price Volatility



S&P 500 Intraday Spreads Dec 2019-Present

Intraday Volatility = percentage spread between daily highest, lowest prices

NOTE: Price here is NOT the composite index price but the average price of the S&P 500 components

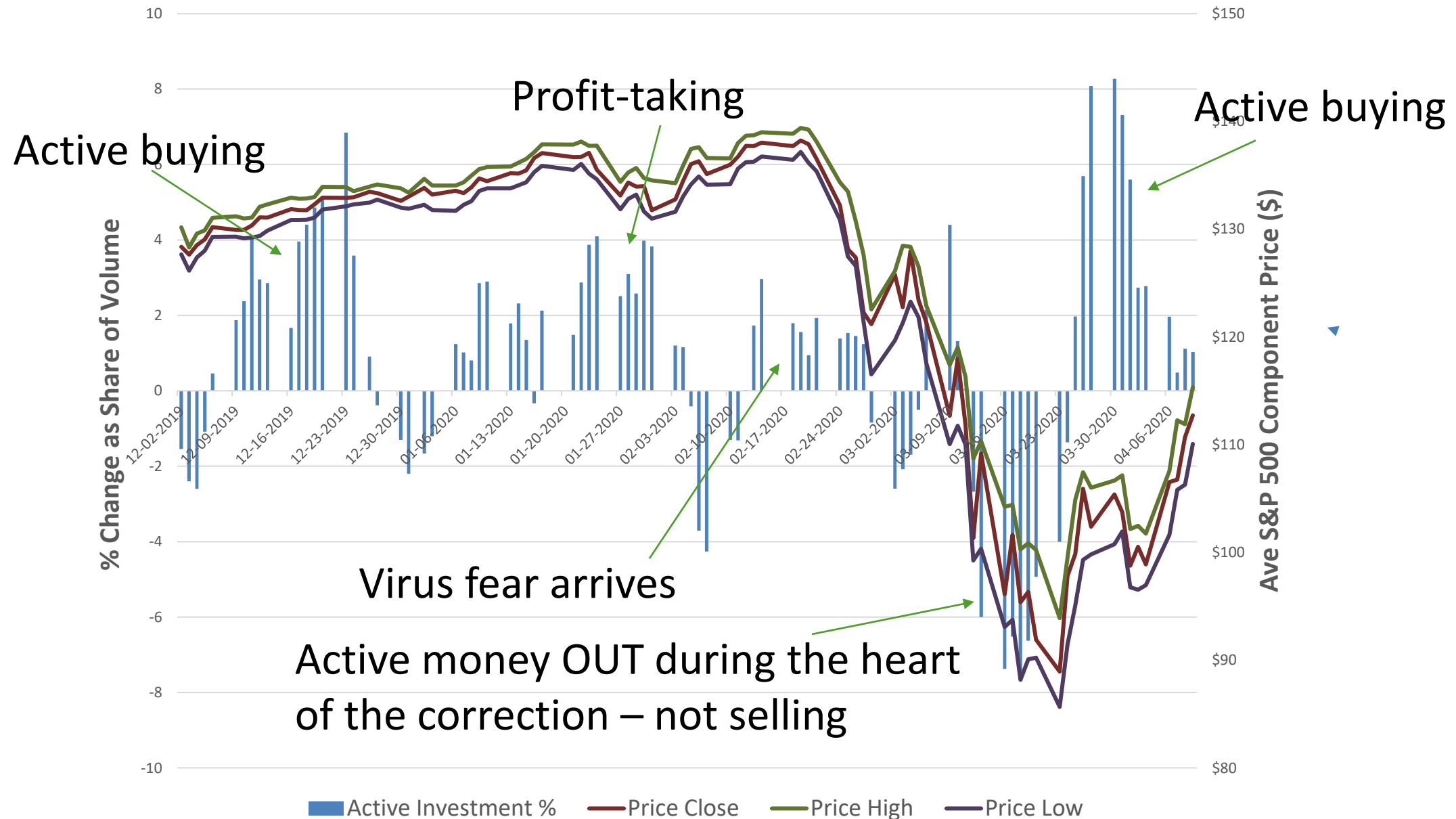


Active Investment Sold Sparingly, Bought Liberally



Active Investment Change Dec 2019-Apr 2020 vs S&P 500 Ave Price

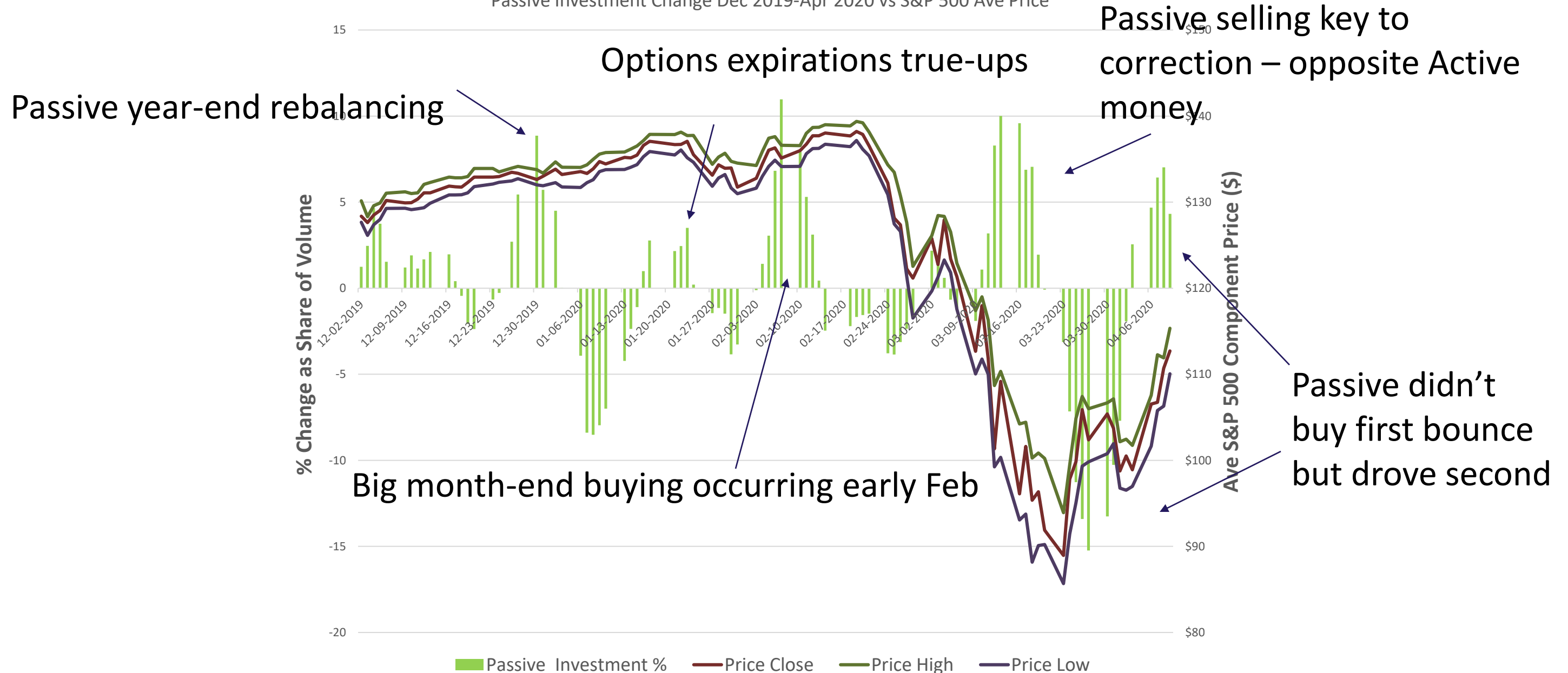
Above the line = increasing behavior
Below the line = decreasing behavior



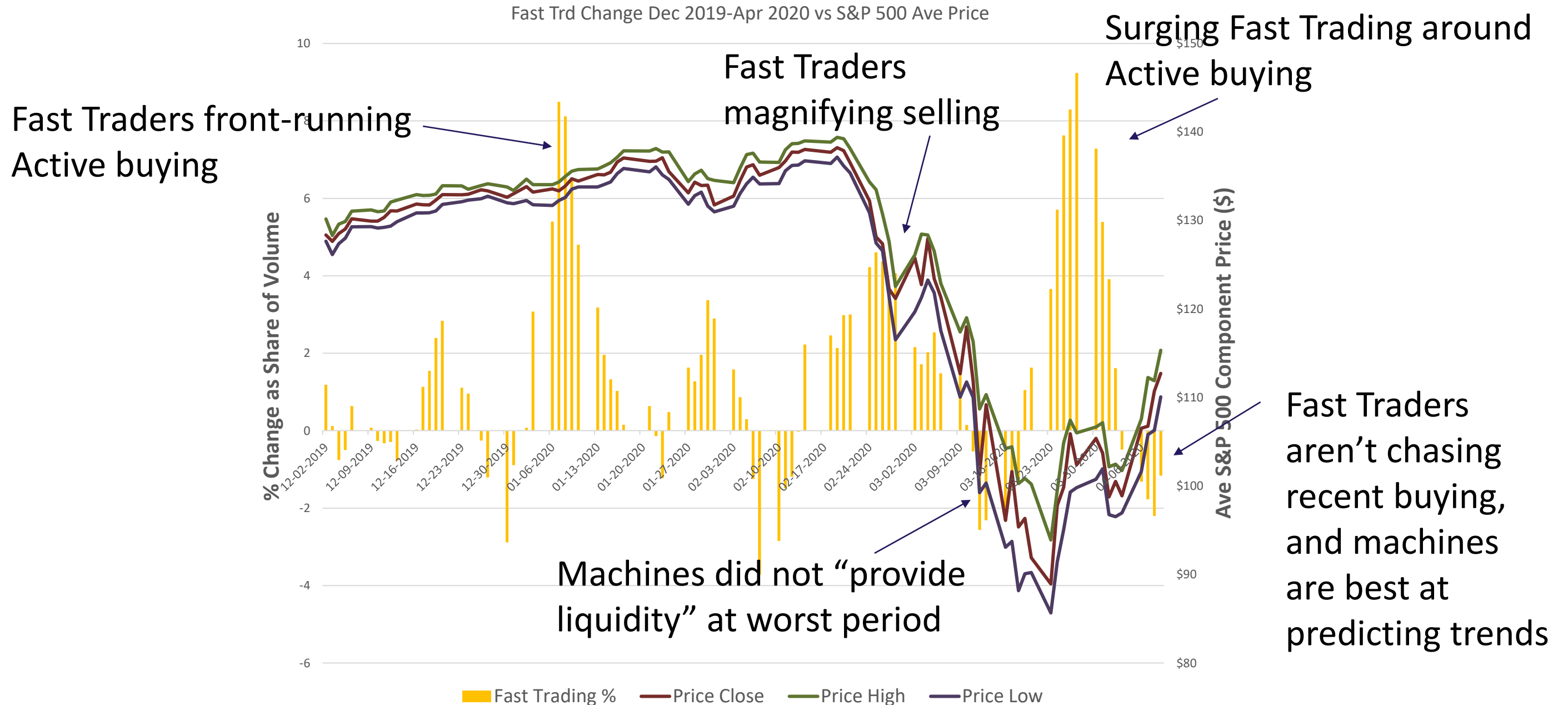
Passive Money Worsened Correction, Aided Recovery



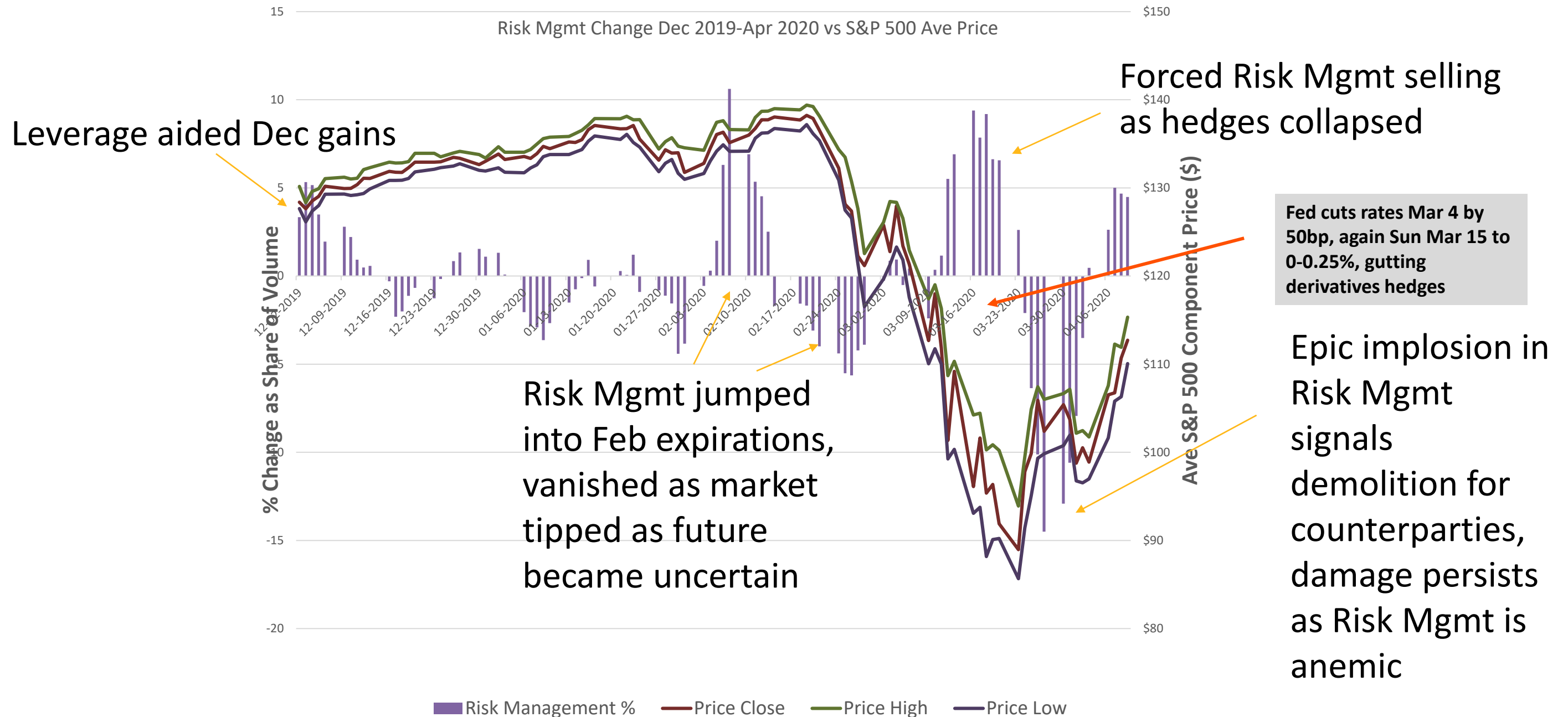
Passive Investment Change Dec 2019-Apr 2020 vs S&P 500 Ave Price



Fast Traders Amplified Moves, Disappeared At Nadir



Risk Mgmt is THE STORY of the Correction



Real Estate Sector Stocks: Feb 24-Mar 20

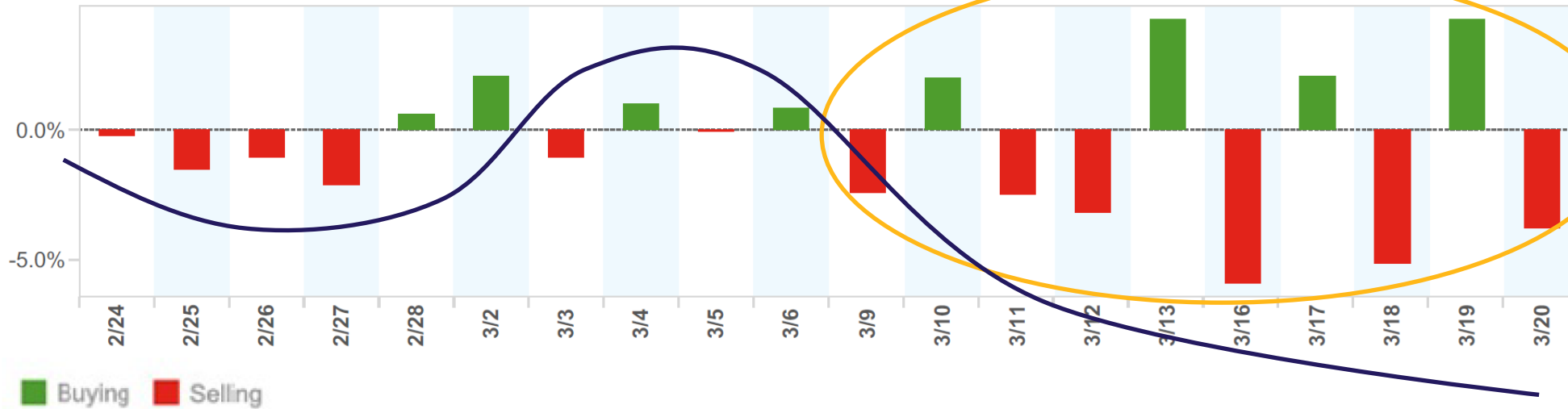


Green= net buying
Red=net selling

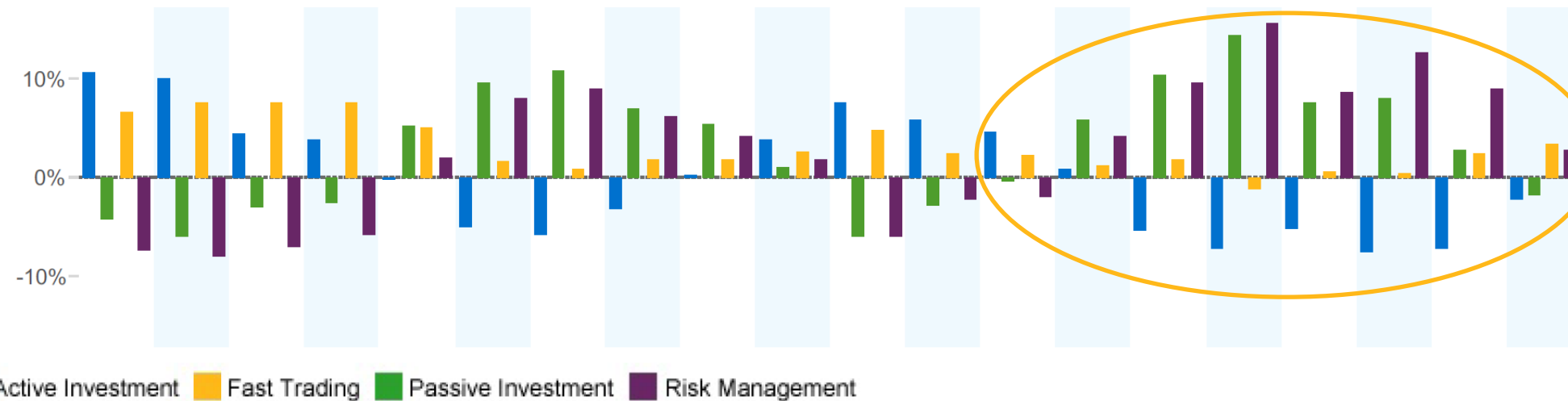
Above zero, behavior increasing, compare to buy/sell data; below zero, falling behavioral demand

MARKET STRUCTURE PROFILE

BUY VS. SELL PREFERENCE



PATTERNS



SECTOR TRADING & BEHAVIORAL TRENDS

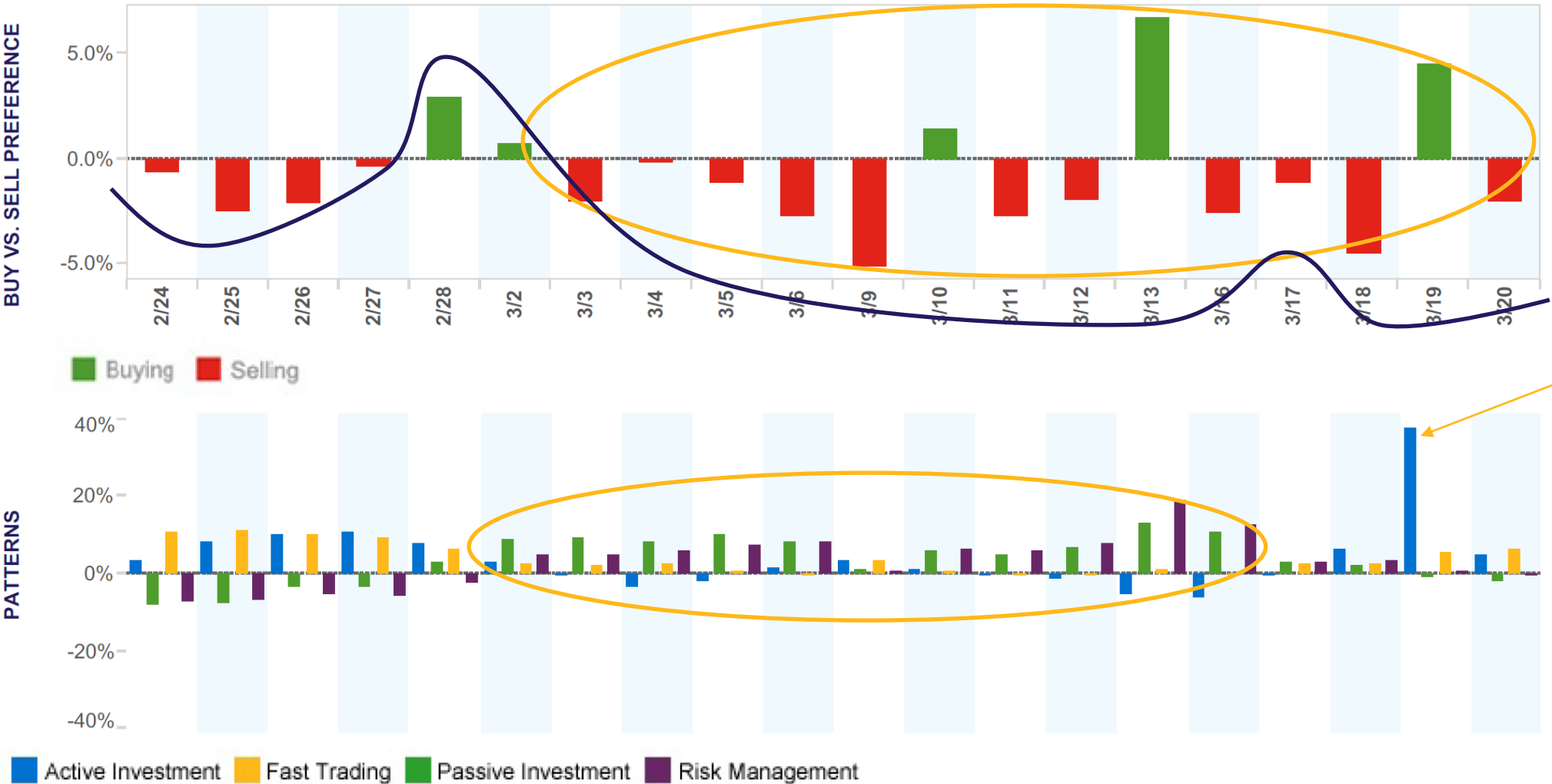
	5 Day	20 Day	50 Day	200 Day
Intraday Volat.	18.3%	9.3%	4.8%	2.8%
Short Vol.	39.5%	44.5%	44.3%	44.4%

- **Massive swings** above and below intraday midpoint is the **tug-of-war** between **ETF traders, counterparties** to directional bets like options, futures
- **ETF creations, redemptions**, not counted as fund turnover, were core driver in correction
- Intraday volatility for sector stocks **AVERAGED over 18% Mar 16-20**

Energy Sector Stocks: Feb 24-Mar 20



MARKET STRUCTURE PROFILE



- Over the two weeks from Mar 2-16, Energy lost 50% of its value and the **PATTERNS** were dominated by ETFs (green/purple)
- **Big blue bar** shows Active money hunting for value
- **Intraday volatility** for sector stocks **AVERAGED** over 22% Mar 16-20

SECTOR TRADING & BEHAVIORAL TRENDS

	5 Day	20 Day	50 Day	200 Day
Intraday Volat.	22.3%	15.5%	9.0%	5.7%
Short Vol.	46.5%	43.9%	46.2%	46.7%

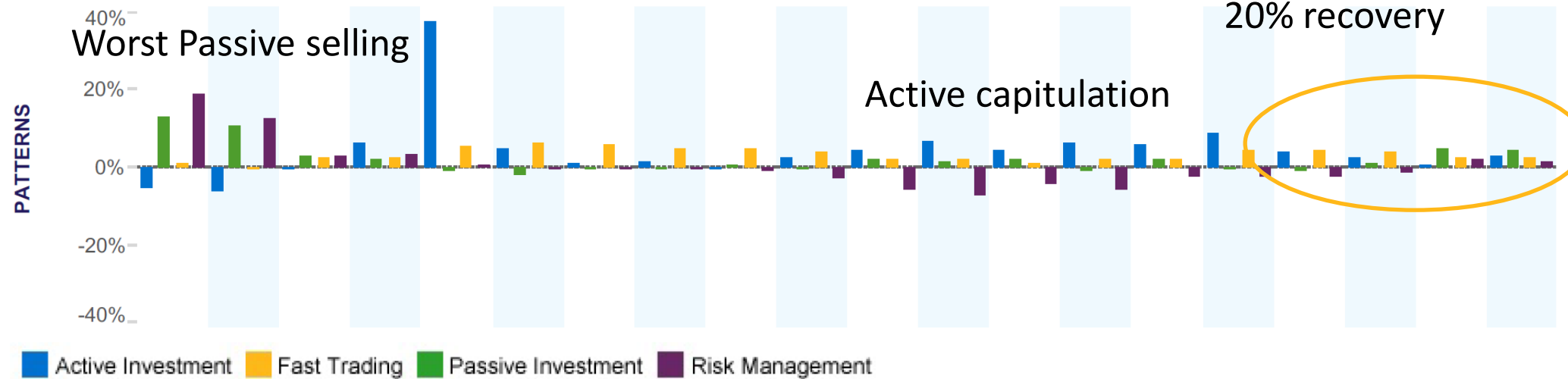
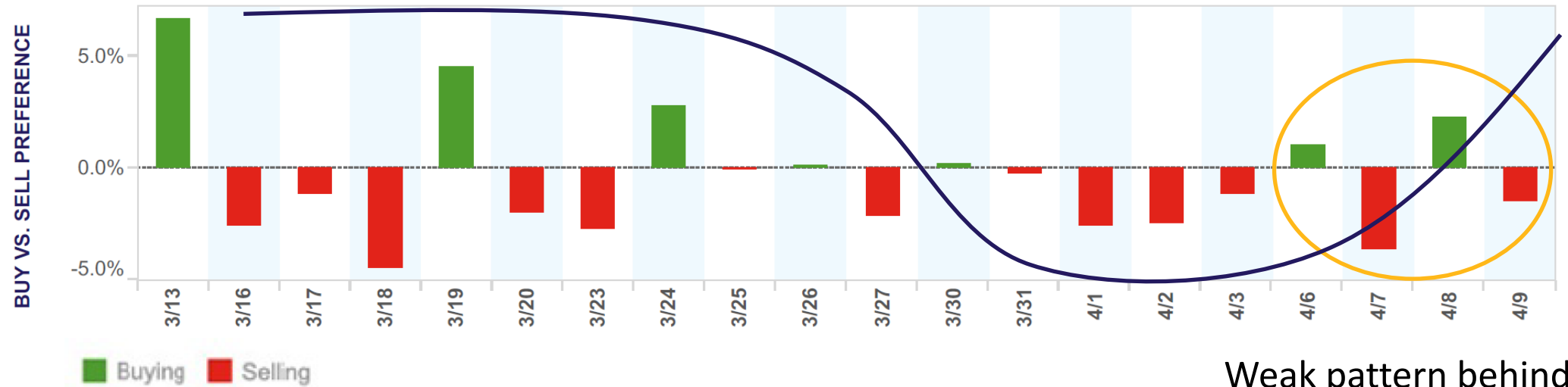


The (First) Turn

Energy Sector Stocks: Mar 13-Apr 9



MARKET STRUCTURE PROFILE



- **Energy sector stocks rose over 20%** the five days ended Apr 9, but the **PATTERNS** driving it are small, mainly Fast Trading, ETFs
- **Buying, selling is mixed**, meaning only certain stocks are driving big gains and it's not pervasive in the sector
- **Volatility is way down**, but **shorting is back up** after covering the past 20 days

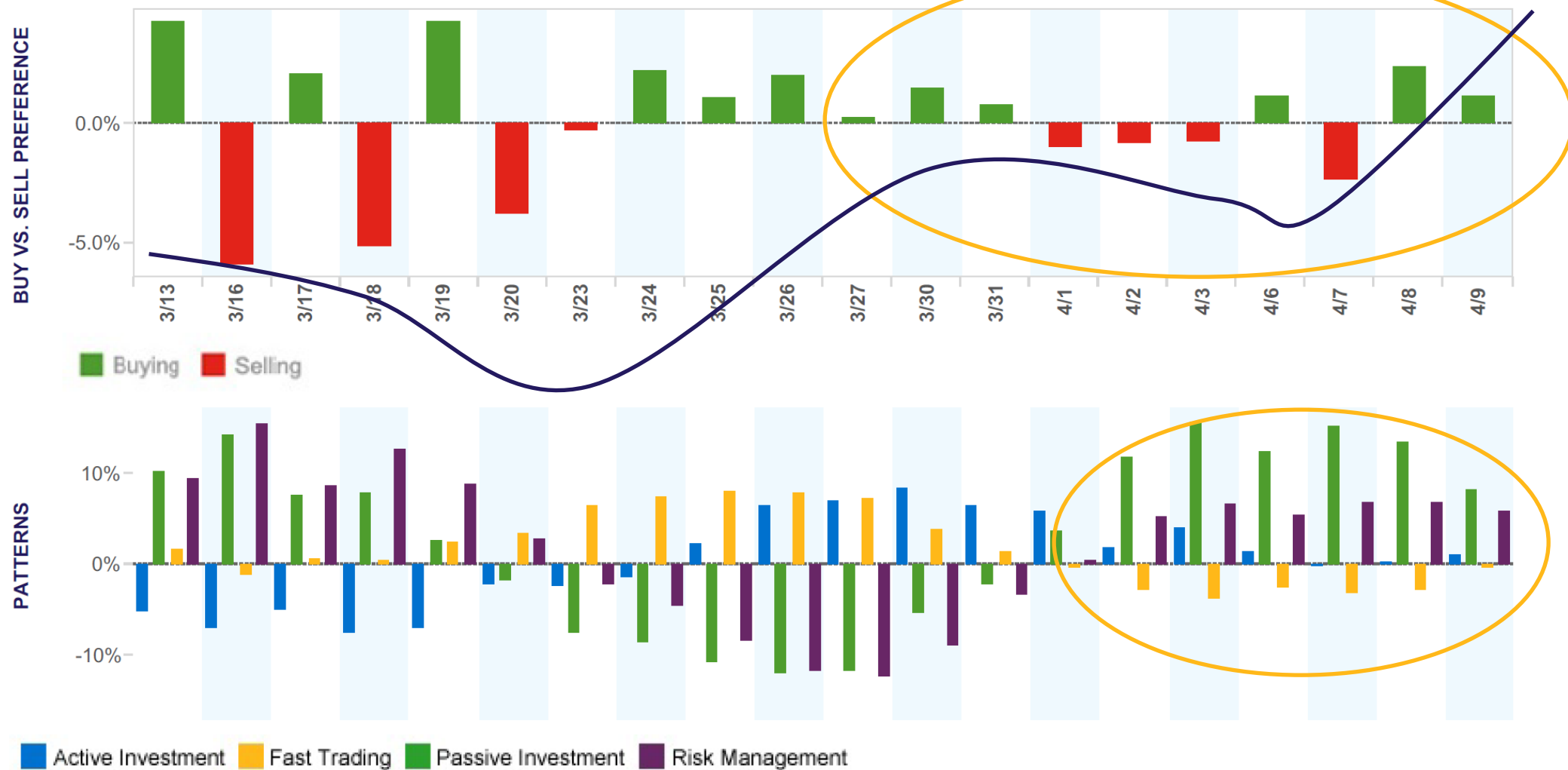
SECTOR TRADING & BEHAVIORAL TRENDS

	5 Day	20 Day	50 Day	200 Day
Intraday Volat.	13.8%	17.0%	11.9%	6.4%
Short Vol.	46.7%	43.9%	46.2%	46.7%

Real Estate Sector Stocks: Mar 13-Apr 9



MARKET STRUCTURE PROFILE



- Real Estate surged 20% in four days, pattern is Passive asset allocation moving to oversold products – but without any rational thought
- But the **pattern is waning**
- Intraday volatility down by half, but shorting way up -- **Sustainable?**

SECTOR TRADING & BEHAVIORAL TRENDS

	5 Day	20 Day	50 Day	200 Day
Intraday Volat.	8.9%	12.2%	7.2%	3.4%
Short Vol.	47.0%	42.1%	44.2%	44.4%

A Strong Sector: Health Care, up 3% Past Mo.



MARKET STRUCTURE PROFILE



- Except for Mar 24-Apr 1 when ETF, quant flows declined, all behaviors generally up, sector had consistent buying days unlike most sectors
- Worst period was Mar 12-20, fed by hedge funds (purple, blue)
- Now, everyone buying sector battling coronavirus

SECTOR TRADING & BEHAVIORAL TRENDS

	5 Day	20 Day	50 Day	200 Day
Intraday Volat.	7.8%	11.2%	8.2%	5.4%
Short Vol.	46.5%	43.1%	44.2%	45.2%

What Did We Learn? What Do You Tell Execs?



- 1. There are four behaviors, not one. All drive prices. It's not "coronavirus fear! No wait, coronavirus fears have eased!"**
- 2. Unintended consequences.** Fed intervention to provide liquidity destroyed hedges, worsening the correction, because Risk Mgmt is big.
- 3. Patterns are uniform but effects are not.** The products – stocks – don't exist in equal supply.

Q & A

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