

Do You Know Your Stock's Liquidity Characteristics?



Why Market Structure Analytics are a Vital Part of Modern IR Liquidity in the US stock market is shrinking

There is an even chance your average trade-size is less than 100 shares.

What's that got to do with Investor Relations? Glad you asked! We'll explain. First, let's understand "liquidity." At ModernIR, we define it as "the amount of shares one can buy before price changes."

By the way, the definition of volatility is "changing prices." So as trade-sizes become smaller, it means prices are changing more often, meaning more volatility. Rules in the stock market require brokers willing to trade stocks to quote prices for a minimum of 100 shares to buy and sell, both. No rules force trades to occur at that size because **regulators never supposed trades would be smaller than quotes.**

But they are. If your average trade-size is less than 100 shares, it means your stock isn't even trading at the quotes everyone can see. Those trades and prices are hidden from view. The SEC's Midas platform says nearly 48% of trades are odd lots – less than a hundred shares.

What's the ramification? That the investors you and your executives court continually via non-deal roadshows and sellside conferences aren't pricing your shares. T Rowe Price wants size and stable prices. If the firm looks to buy \$20 million of stock and your trade-size is 88 shares equaling \$2,350 per trade, T Rowe Price won't find \$20 million at an acceptable price. And if it owns \$20 million already, selling it may sharply impact returns on investment because it will destabilize your price.

It's incumbent upon IR to understand the stock market's supply chain, and to make sure the executives and the board understand it too. You don't have to be an expert on "market structure." We have the data and expertise to drive that action for you.

That's the nexus with IR. It's incumbent upon IR to understand the stock market's supply chain, and to make sure the executives and the board understand it too. You don't have

to be an expert on “market structure.” You do have to know how your stock trades, because that’s your responsibility. We have the data and expertise to drive that action for you.

Here’s an analogy: Suppose you go to the store for a shirt and they don’t have your size. You can’t buy the shirt. You’ll have wait for the supply chain to replenish the product by bringing it from elsewhere.

Startlingly, the supply chain for equities is largely overlooked by both investors and public companies (unless they’re clients of ModernIR, by far the market leader and largest purveyor of quantitative market-structure analytics to US-listed companies. Our clients know how the market works and what opportunities and risks it presents to investors and the value of shareholder equity). What if the market can’t meet the minimum expectation that a shirt will be on the rack, so to speak? It’s already happening! A great many stocks have trade-sizes below the minimum quote of 100 shares.

At the same time, look at the size of institutional investment. Blackrock, Vanguard and State Street, collectively or individually now top-ten holders of nearly all stocks, oversee a combined \$15 trillion. Yet the S&P 500’s average trade-size is 135 shares.

As market capitalization has gone up, up, up, liquidity has gone down, down, down. Money can’t move. That means it’s ever more likely your stock reflects supply-chain disruptions when it gyrates up or down rather than actual buying or selling by investors.

Savita Subramanian, equity and quantitative strategist at Bank of America, told clients in a September note that increasingly volume in the S&P 500 is coming from “non-fundamental” investors and a consequent years-long decline in volume that imperils even the largest and most liquid US stocks during times of turbulence. “When the wall of worry turns to panic selling, we worry about an unlikely area of liquidity risk: the S&P 500, the equity benchmark perceived to be more liquid than most,” she wrote.

What should the IR profession be doing in response?

This is where ModernIR Market Structure Analytics lifts IR to a new plane of professional competence. You have two core

data-driven actions. **First, you should factor market structure into your buy-side relationship-management.**

Liquidity threats and opportunities are measurable. Reach out to remind your holders and prospects about what makes your story uniquely differentiated when liquidity factors are favorable. You’ll get better results from effort, and your holders will get better returns for taking risk.

Don’t reach out when liquidity is risky because you’ll contribute to poor portfolio performance if those holders buy – which in turn further drives assets from stock-pickers to passive instruments. If liquidity is falling across the market, is there really anything one can do? Yes. Your stock’s, sector’s or industry’s liquidity may fluctuate significantly around measurable events like sector-rotation, quarter-end window-dressing and options-expirations. **Seeing the data gives you an informed advantage.**

Second, regularly provide your board and executive team updates on your market structure and liquidity characteristics.

Our profession recognizes that ESG (Environmental, Social, Governance) is now part of IR. So is market structure. It deserves an equal spot on the IR plate because it’s the key factor affecting equity value.

We’re the IR profession’s undisputed market-structure experts. We bring relevant, accurate, valuable data on what all the money is doing, all the time, so you can see and track developing trends driving equity value up and down – and plan around it. Do what your peers are doing. They use Market Structure Analytics from ModernIR.

Let us help you make market structure part of your IR plan.

For a free, no-obligation look at your stock’s market structure compared to your industry, sector and peers (only US-listed stocks, including ADRs) send a note titled “Market Structure” to info@modernir.com.



Market Structure Analytics™

Relevant. Accurate. Valuable.

www.ModernIR.com