April 21, 2010

We are pleased to offer some input on your Request for Comments re: RIN 3235-AK47 (Concept Release on Equity Market Structure).

On Page 38, metrics are discussed concerning smaller orders citing the fact that many individual orders are often received by brokers after market close. Since that is the case those orders are usually executed at Open on the following day.

Abel/Noser has been in the business of measuring trading costs for over 25 years. This issue is a valid one. Many institutional managers review their trading costs using multiple strike prices. Example of “strike prices” could include; last night’s close, today’s opening, the price at the time the order was entered (typically called Entry Strike). Brokers could do the same as they have very accurate time stamps.

In the case of individual trading, one could make the case that the individual is entitled to trade a small order at a price that is “in line” with the market and within a reasonable time frame. This issue becomes problematic when the order is received after close. The problem is exacerbated by the wide swings in price between today’s Closing Price and tomorrow’s Open price. It would be interesting to see how often the number of such orders increases with “news”. Then look at the degree of the close/open divergence when compared to days with no news. These are interesting issues.

Technology, however, enables us to look at such issues several ways. For example, an order’s execution price can be compared on a single line to last night’s close and the opening price on trade day. The execution price can also be compared to the close on trade date. That comparison alone would enable the individual to see the cost of his late decision. It would also allow him to confirm that he did, in fact, achieve the next available price (the open). If he received a price different from open and against him, that information is also of interest. One could then look at prices at another time, for example, an hour after execution. If their is a gap opening, and then a reversion back to last night’s close (say an hour later), one could make the case that the gap was created by imbalance. If retail brokers had to report on percent of orders at open driven by individuals who input trades after close, that analysis could be revealing.

We believe that transparency is the key. If brokers are trading, after close, somewhere in the world in stocks on which they already have individuals’ orders and at prices better than the open…those individuals were not treated fairly if they were given the Open price.

So, having broker’s disclose a few pieces of information on after market orders would be extremely helpful.

A larger, and better, picture of the issue could be obtained from the aggregate data that brokers have regarding these orders. If they aggregated them, in a daily report, and showed execution price, last night’s close, today’s open, and price an hour later…the information you seek would become transparent.

All of this is very doable with the technology we have now.

Respectively Submitted,

William P. Conlin
President and CEO