The Sierra Group

OCCUPATIONAL ALERT

"Competition is a by-product of productive work, *not* its goal. A creative man is motivated by the desire to achieve, *not* by the desire to beat others." *Ayn Rand*

Innovation, change, and global competition continue to redefine employment in every sector of the economy. The Sierra Group, follows the employment trends and innovations in a number of sectors and compiles and distributes our OCCUPATIONAL ALERTS to help keep you informed of vocational changes so that you can leverage opportunities and control risk.

TRADING VOLUME EXPECTED to DECLINE in 2009

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According to recent January 2009 market analysis report by Goldman Sachs, equities share volume will drop 16% in 2009, due to reduction in debt at brokerages and hedge funds in addition to further redemptions by fund investors. Brokerages and hedge funds reported significantly reducing debt from a high of 28 times equity in late 2007 down to the current 18.4 times equity.

The average daily volume of equities trading is expected to decline by 1.4 billion shares in the first half of 2009, due to this deleveraging and due to investors' flight to cash. Goldman surveyed all major asset classes (cash equities, derivatives and fixed income securities), and their analyst, Daniel Harris, noted that "We expect 2009 to represent the first major decline in industry wide volume trends in over a decade". It appears that while trading levels should begin to stabilize in the later part of 2009, that the large volume of trading in 2008 (mostly due to high volatility) is not expected to be duplicated over the next few years.

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Research also noted a similar decline in assets under management at both traditional money managers (from $8 trillion to $4 trillion) and equity based hedge funds ($865 billion in November of 2007 down to $587 billion in November of 2008). Thus the Goldman Sachs report noted that money was moving out of "risk based assets" such as stocks and bonds and into money market funds and U.S. Treasury securities. It follows that with trading volume down, the two largest exchange operators, NYSE Euronext and Nasdaq OMX stock prices have fallen significantly over the past year (NYSE Euronext fell almost 70%, and NASDAQ stock lost about 50% of its value.

According to a Bloomberg.com article of May 23, 2008, trading on the NYSE fell, as competing platforms such as Bats Trading Inc. and Direct Edge captured part of the NYSE's market share. It was noted that investors were moving away from the Floor Brokers who had dominated trading for most of the Big Board's 216 year history. Thus the increasing use of automated systems has pushed NYSE Euronext to overhaul systems and cut transaction costs to keep pace with orders that flicker in a hundredth of a second.

References:

Goldman Sachs' January 2009 Market Analysis Report
Peter Chapman Jan 22, 2009 Traders Magazine article "Trading Slump Expected in '09"
Jeff Kearns and Edgar Ortega Bloomberg.com article of May 23, 2008 "NYSE Trading Falls to a 7- Year Low as U.S. Volume Rises"