

## *The Post-Floor Closure Debrief*

**D. Choate**

on Jul 28, 2020

### *Turbulent Markets Were Navigable Seas, Despite Overlapping Currents*



The initial impact of COVID-19 and the ensuing implementation of shelter-in-place policies on the trading world has been widely reported, with a number of items getting heavy airplay.

Some are obvious: extreme market volatility in March that saw the VIX breach 80, the increase in average daily moves across assets, and, now, the ensuing speed of the market's recovery in a still elevated volatility regime. The Nasdaq has hit all-time highs and the S&P 500 has almost erased March's losses. The other item that received much attention — attention only heightened by the history and symbolism ingrained in the institution — was the closure of the New York Stock Exchange's trading floor.

*(Note: The closure of the remaining American derivatives pits was notable as well, but those exchanges are less applicable to this equity-centric piece.)*

While the shutdown was indeed notable and historic, with all of the remaining floor broker trading volume (D-Orders) needing to port to some electronic workflow (MOC/LOC orders), from our perspective at CAPIS and given the feedback of our clients, it was a manageable and orderly shift. We were proactive across the board in communicating these developments and clients appreciated the advice and guidance. In turbulent times, experienced trading coverage becomes more valuable.

With the closure, we recommended avoiding the open and close until we could get a sense of the impact and risk of transacting in the absence of floor brokers during those high-volume periods. Some of our adjustments, like stretching out our executions more strategically across the day, were simple shifts of equal parts art and science. *We have the data to back up our decisions but we do not ignore the instincts of our experienced staff. It is that blend that has been key in periods such as these. A trader who knows how to take a breath and keep their wits is as valuable as any algo.*

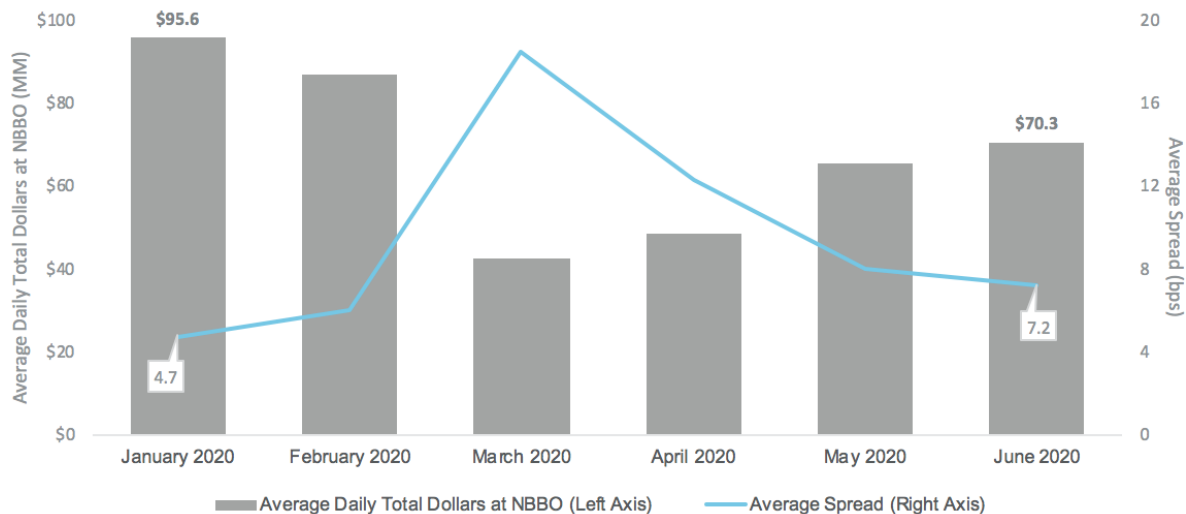
We put extra emphasis on shortening pre-trade check time horizons; trading into, rather than on, the close; and looking at our baskets holistically to maintain as much neutrality as possible. All of that being said, we had plenty of clients that still chose to trade on the close. And *not a single one* of those orders went unexecuted.

Part of what allowed us to handle this ongoing turbulence and widening of spreads is the depth and breadth of our trading desk's experience. Most of our traders have been with us for more than a decade, and thus have traded through a number of Black Swan (and Grey Rhino) events. While technology and market structure have drastically changed over that period of time, some of the strategies deployed by our traders in those moments stand the test of time.

But, are we back to normal yet?

According to the data from NYSE, market quality has improved since March, but spreads on the S&P 500 are still 53% higher than January and available volume displayed at the NBBO is down 26%, even as daily volumes remain elevated.

### S&P 500: Average Notional Size at NBBO & Average Spread



[Source: NYSE](#)

Like with much happening during 2020, and in our labyrinthian, interconnected markets in general, it is hard to attribute the data and trading activity we have seen to a single variable (“The floor was closed!”).

Notably, there has been an ongoing retail trading undercurrent. Prior to the current era of zero-commission trading, retail flow was roughly 10% of the market. Now, that figure stands around 20%-25%. To some degree, we see a decline in activity on the close as a natural, and ongoing, byproduct of more retail trading. Those participants are less likely to be deploying advanced order types, and they do not have the same degree of, say, daily portfolio rebalancing and hedging needs that would necessitate using the close.

On the other hand, if you’re trying to get a trade done consisting of, say, 26% of a midcap’s ADV, one might still feel like the close is the magic bullet. Given the fact that the virus is still not gone, unemployment is still with us, and it is an election year (to name a few catalysts), getting a trade done during a period of wider bid-ask spreads might be preferable to the overnight risk. As for how spreads have had their own spurts of small, medium, and large dislocations, how much can truly be pegged on one variable?

Each day in this environment bears its own new hiccups, but in the end, it isn't that markets aren't changing, it's that we change how we use markets to ensure our clients' success. Which is exactly what we're here for — to be that trading guide in times of uncertainty.