



NYSE - Halted Trading Impact on US Microcap Stocks

Date: July 8, 2015

NYSE Trading was halted. As almost any market participant is now aware, trading was halted on the New York Stock Exchange at 11:32am EST due to technical errors. Trading was halted until around 3:00pm EST when it re-opened. Getting back online before the close is notable because roughly half of the volume of the exchange occurs at the open and the close as larger investors often trade during these times. A dearth of information early in the day led to speculation and highly visible news sources were quoting everything from Chinese hackers to North Korea's anniversary of Kim Il Sung. The NYSE communicated to floor brokers that the problem was related to an overnight software update and that 200 stocks were among those affected. In an effort to limit the effect of trading errors all trading was halted. On twitter, the NYSE stated "The issue we are experiencing is an internal technical issue and is not the result of a cyber-breach. We chose to suspend trading on NYSE to avoid problems arising from our technical issue."

NYSE is not the primary venue for Microcap. Compared to larger cap stocks, NYSE is not a very common trading venue for Microcap stocks. About 27.5% of our microcap portfolio (by weight) is traded on the NYSE. In fact, if we look at the trading volumes from yesterday, NYSE was the venue for only about 9% of the total shares traded in Acuitas holdings. Those numbers have fluctuated a bit and during the month of June, these figures were a little higher. However, it is sufficient to say that the temporary halt of one trading venue is not seriously disruptive. In exhibit 1 you can see that as you go down the cap spectrum, the NYSE makes up an increasingly smaller player as percentage of stocks traded by venue.

Exhibit 1. NYSE by Market Cap

	Percentage of Stocks Traded on NYSE
Mega	78.0%
Large	71.3%
Mid	53.6%
Small	38.3%
Micro	16.4%

Source: Factset, Russell Investments, Acuitas Investments



In exhibit 2 we show the largest Microcap trading venues.

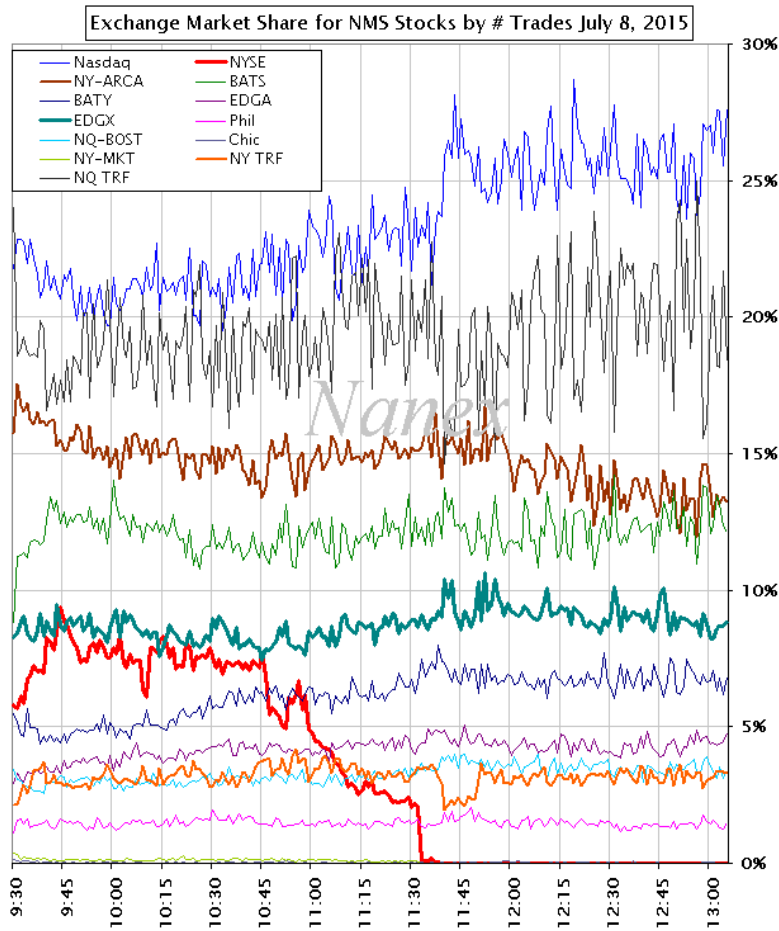
Exhibit 2. Largest Trading Venues for U.S. Microcap Stocks

ID	Name	Shares	Pct of Volume	Avg Trade	
				Trades	Size
ADF	FINRA ADF	209,874,937	41.28%	619,582	338.7
NAS	NASDAQ	87,734,513	17.26%	565,028	155.3
NYS	NYSE	46,334,378	9.11%	139,337	332.5
PSE	NYSE Arca	46,193,719	9.09%	324,409	142.4
EDGX	DirectEdge EDGX	44,319,005	8.72%	228,510	193.9
BATS	BATS	26,992,270	5.31%	216,312	124.8
BATY	BATS Y	20,591,565	4.05%	167,792	122.7
EDGA	DirectEdge EDGA	10,651,913	2.10%	84,813	125.6
BOS	BX	9,707,537	1.91%	83,648	116.1
ASE	NYSE MKT	2,967,848	0.58%	9,285	319.6
PHL	PSX	2,685,880	0.53%	21,424	125.4
	other venues	370,748	0.07%	2,560	144.8
Total		508,424,313		2,460,366	206.6

Source: Factset, Acuitas Investments, Russell Microcap Index.

Investors benefit from fragmented trading. There are nearly a dozen other venues to trade the stocks affected, besides the NYSE. Clearly, 15 years ago this would have been a much bigger problem. In exhibit 3, you can see the number of trades during the morning drop off for the NYSE while other markets absorbed the volume. Importantly, this is not a volume chart, but rather number of trades as NASDAQ has a larger number of stocks on its exchange while the average trade size on the NYSE is larger.

Exhibit 3. Exchange Market Share for NMS Stocks

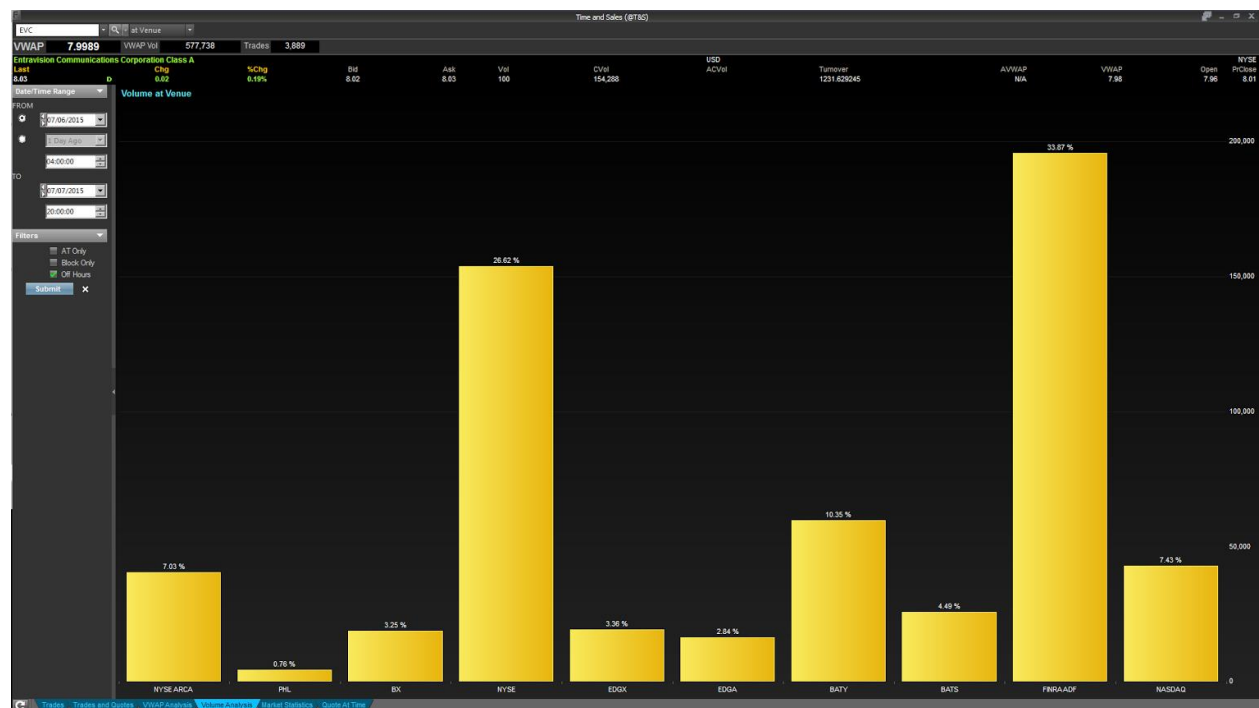


Source: Nanex

Stock Example - Entravision: EVC. In order to dispel the notion that is significantly harder to find venues to trade smaller stocks we have provided a stock example. Entravision operates a diversified media company that uses TV, radio and digital media to reach Hispanic consumers in the U.S. and border markets of Mexico. The stock has a market cap of \$711 million with over 1,000 employees and trailing twelve month revenue of around \$250 million. The firm owned 58 TV stations and 49 radio stations as of December 31, 2014. In exhibit four, you can see that over the previous two days

(7/6-7/7) around 26% of the volume occurred on the NYSE (its primary trading venue) while the remainder was disbursed across electronic trading networks and other venues. All of the volume in EVC during this period that took place on the NYSE could have occurred on other trading venues and the trading remains broadly distributed.

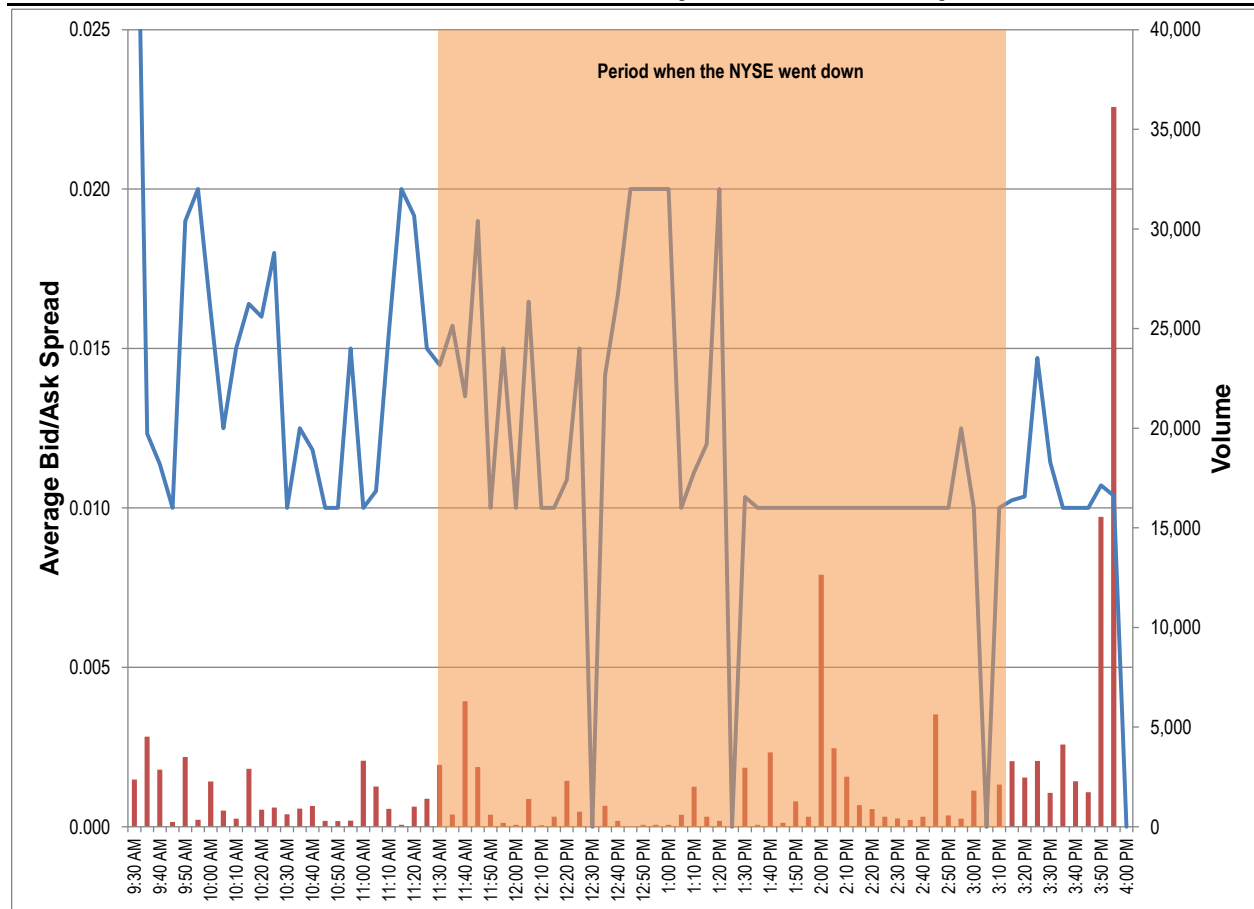
Exhibit 4. Entravision Communications Corp - Volume at Venue



Source: Factset, Acuitas Investments.

In exhibit 5 you can see that over the period NYSE went down, the average bid-ask spread remained around \$0.02 and trading in the stock continued without disruption.

Exhibit 5. Entravision Communications Corp - Volume and Spreads



Source: Factset, Acuitas Investments

Summary: Today's disruption must be taken in context. It is a significant event, but the U.S. stock market did not "close", investors did not lose access to their assets and the decision by the NYSE to halt trading did not meaningfully impact the ability of investors to trade Microcap stocks. The impact on retail trading will be interesting to watch as the psychological effect may heighten the perception of risk to market participants. Notably, retail investors make up a larger percentage of the volume in Microcap. We believe that the points above highlight the durability of the U.S. market and the benefit of the fragmented nature of the trading venues. It is interesting to note that while China continues to take steps to support its falling stock market through increasingly desperate measures that limit market access, the U.S. relies on an increasingly fragmented range of trading venues that allow investors myriad ways to access liquidity for even the smallest stocks.



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