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Investors keep calm with gallows humour

By Dan McCrum and Telis Demos
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Investors did not wave their arms, scream or shout as the US stock market moved steadily lower on Monday – they just sold.

“Everybody is acting as if they don’t want to be the last ones left to turn out the lights,” said Howard Present, chief executive of F-Squared Investments.

His asset management group had nearly finished selling out of financial stocks entirely by the close on Monday, and he expected to move into cash holdings of 25 to 50 per cent in the next few weeks if the volatility continued.

Many fellow investors joined in such extreme moves. Validated by high volumes, this was no summer swing driven by the few traders left behind in the office.

US Treasury volumes surged to double their 90-day average, according to Tradweb. Listed equity markets in the US exchanged 17.8bn shares, the most in one day since the “flash crash” of May 2010, and the fifth highest in any session since the financial crisis began.

Markets generated nearly 1 terabyte of data on both Friday and Monday, well above previous peaks near 600 gigabytes, according to Nanex. The traffic came not just from shares traded but from the millions of messages sent by automated trading systems in options, futures and equities.

High-speed traders, who exploit tiny moves in price, were enjoying unusually sharp price changes of 30 cents in a millisecond, for example, in shares of SPY, the S&P 500 index exchange-traded fund, according to Nanex, a market data provider.

Despite the extreme activity, the mood on the floor of the New York Stock Exchange was as it typically is in the electronic age – calm.

“Things were nervy and edgy but not panicky,” said Kenneth Polcari, a floor trader and managing director at **Icap**.

“Panicky is when you’re throwing things out the window. This move has been methodical, with steady, even distribution across all sectors.”

The irony of a rush into US Treasuries following the downgrade to the sovereign credit rating by Standard & Poor’s was not lost, and gallows humour predominated once the trading day was over.

“At least we have a president who can give a speech and calm the markets,” said one hedge fund manager, who described it as “a turbulent sort of a Monday”.

The president’s lunchtime address had no more effect than the few bargain hunters trying to call the bottom. The market attempted several brief rallies as the Dow Jones index hit eye-catching levels such as 1,150 and 1,125 on its way down to where it closed at 1,119, as more chart-focused traders looked for a buying opportunity.

But each time, those moves failed to gain any steam. “Volumes have been so light during the climb up to 1,300, this tells you this is the first move with real conviction. That’s indicative of active participation by all asset managers across the spectrum. The market is just ignoring the technical levels,” said Mr Polcari.

Isacc Souede, chief executive of Permal, a fund of hedge funds, described the stark change in sentiment from recent months. “This is not risk-on or risk-off, its no risk and I can’t get out fast enough,” he said.

Like many in the market, he could point to a variety of factors accumulating to erode investor confidence. Halting attempts by the European authorities to support sovereign debt, a string of poor economic data, and uncertainty on the effect of measures that will be taken to close fiscal deficits were all on investors’ minds before S&P chose to downgrade the US government at the weekend.

But whatever the cause, uncertainty was paramount and investors still bearing the scars of 2008 are “not going to stand around and watch the market drop another 25 per cent”, said

Mr Present.

Indeed, few now expect a bounce. “There is a great deal of nervousness about tomorrow. All the technicians are bearish now, with no exception,” said Mr Souede.