ModernIR
new rules. new tools.



Investor relations is changing. Are you?

...Everything You Wanted to Know About Quant Trading But Didn't Learn in Kindergarten...

Reality Check:

ComplianceWeek - Changes in Market Trading, Investor Relations

Excerpts:

If your investor relations department continues to practice in a traditional manner—especially in this rapidly changing investment environment—it will become increasingly irrelevant.

Investor relations executives need to learn all they can about the quantitative stock selection and electronic trading processes, so they can explain to management and the board of directors why the company's stock is behaving differently from the way it has before.

About the Author



Louis Thompson Jr. is an internationally recognized expert on corporate governance and disclosure, having served for more than two decades as president and chief executive officer of the National Investor Relations Institute until his retirement earlier this year. An adviser to the Securities and Exchange Commission and the New York Stock Exchange, Thompson is currently serving a second term on the NYSE Individual Investor Advisory Committee.

Today's Big Point:

- **IROs: Want to run a great IR program?**
- **Vendors: Make your clients look great?**

…

Understand how modern trading has radically changed the investor relations role

IR Then and Now:

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- **IR <u>then</u> - Paddling the lake**
  - *Easy to mark and measure progress.*
  - *Long-term growth*

…

- **IR <u>now</u> - White water rafting**
  - *Less control…must anticipate, adapt.*
  - *Short-term thinking*





Share Price Set By:

- **BEFORE global era**
  - **Business value**
  - **Industry trends**
  - **Major events**
- **AFTER**
  - **Rational Thought**
  - **Risk Management**
  - **Speculation**
- **Analogy: FICO scores**

Yeah…So?

- **Just a THIRD of the time value the driver**
  - Affects targeting, messaging, measurement
  - Changes what services help IR folks best
- **Control Speculation? Risk Management?**
- **No…Just *Rational Thought***
  - IR must account for other value drivers
  - IR tools must provide a better picture
  - ANALOGY: satellites versus spies

The Environment:

- **THE. JOB. HAS. CHANGED. Have we?**
- **Historically IR, IR services, shout: "We focus on the business and let the stock take care of itself."**
- **We're schooled to paddle across lakes but thrown into whitewater rafting**
- **But stocks at least half the time trade away from business value**
- **ANALOGY: dollar and gold standard – no value mooring.**

Market Structure

- **<u>Buyside</u>: More like asset managers than investors – assets and risk-management**
- **<u>Sellside</u>: Purveyors of technology and services, more than information**
- ***LIQUIDITY* key to institutional ownership, sometimes more than fundamentals**
- **Must think about your <u>equity as a product</u> separate from your business**
- *Post 9/15/08 – Market riskier, less liquid*

Behind Price and Volume:

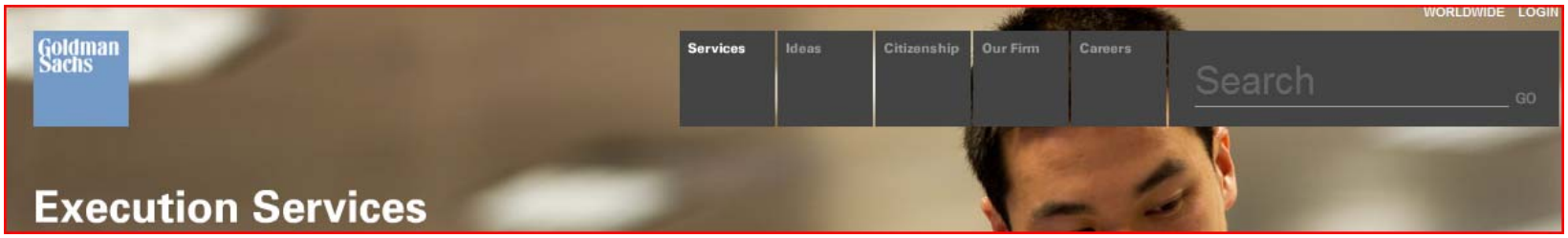
- **Two Gears:**
  - Mathematics - Trading reduces blame
  - Human Nature – Always wars with math

- **Driving Three Wheels:**
  - Rational Thought – Cash is, always will be, king
  - Speculation - Soros, Simons, Griffin, Goldman
  - Risk Management – Assets vs. Liabilities

Quant Mechanics:

- **Quant trading – Liquidity, data, drive buying/selling – it's becoming global**
  - Programs (baskets of securities)
  - Algorithms (following market contours)
  - OMS/EMS (ways to manage buying/selling)
  - Black Box/White Box (math-based outcomes)
  - Multi-asset strategies (mixing instruments)
  - Arbitrage (trading differences, divergences)

A Peek…



- Trade multiple asset classes from a single platform: equities, options, futures, synthetic products and foreign exchange
- Multi-broker, anonymous access to all major pools of liquidity in Asia, Europe and North America
- Access to integrated algorithmic, portfolio and spread trading functionality, pre-and post-trade analytics and clearing and prime brokerage services

Goldman Sachs Execution & Clearing, L.P.'s electronic trading platform provides multi-products across numerous asset classes and global markets. The platform permits reliable, anonymous and broker-neutral access to a broad range of equities, options, synthetics, futures and foreign exchange.

Algorithmic Trading

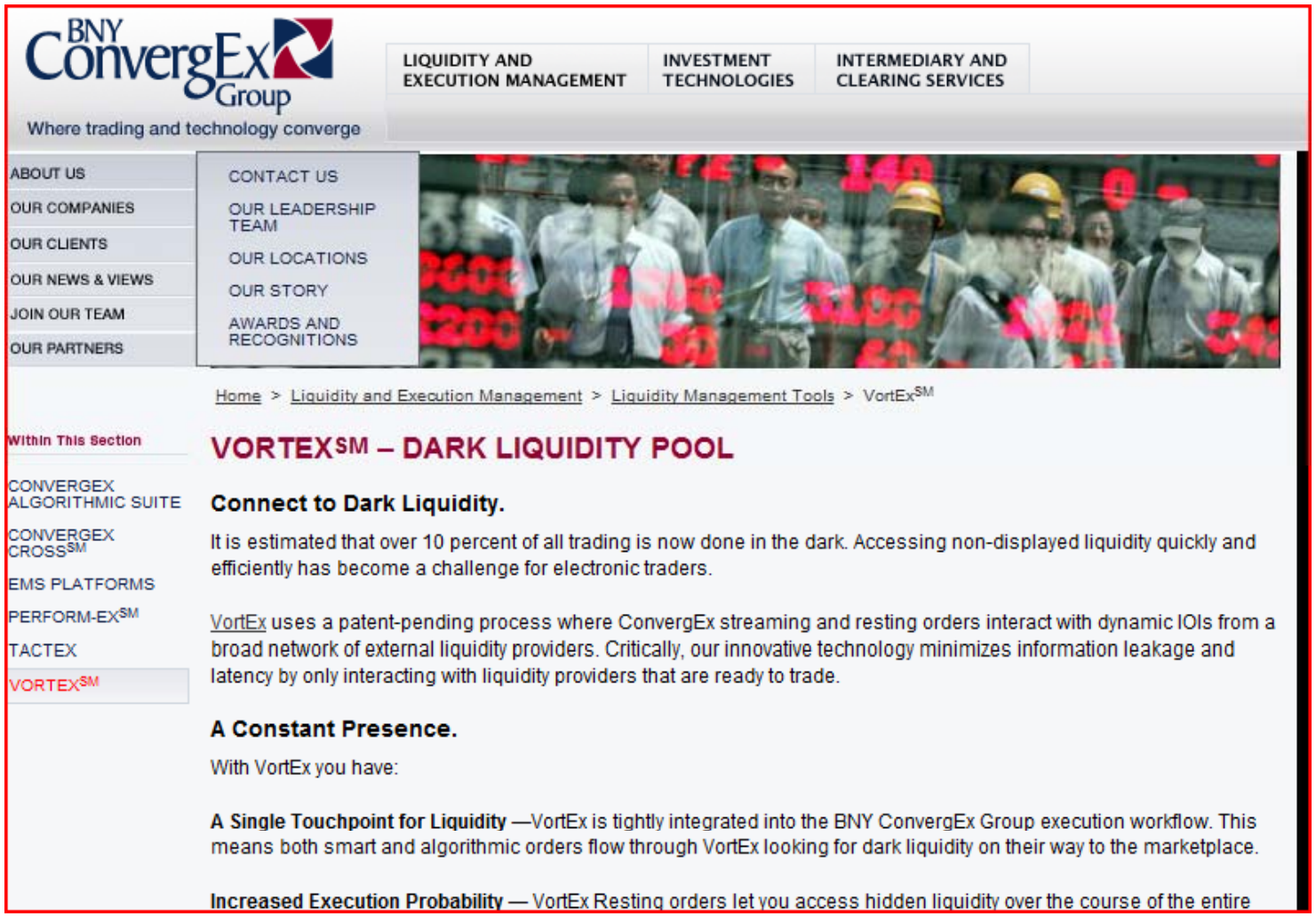
Goldman Sachs Algorithmic Trading (GSAT) offers a global, multi-asset suite of algorithms that includes equities, futures, synthetics and options. Every algorithm seeks optimal execution based on user-defined parameters and accesses a number of displayed and non-displayed sources via our SIGMA smart router. Additionally, clients have the opportunity to cross orders with non-displayed liquidity in our SIGMA X crossing network. You can connect to GSAT Goldman Sachs algorithms in a variety of ways, including REDIPlus, Bloomberg, Order Management Systems or FIX. By trading with GSAT algorithmically, you also gain access to a range of Goldman Sachs resources, including pre-, during and post-trade analytics, transaction cost analysis and execution strategy. GSAT Goldman Sachs algorithms are available in North America, Europe and Asia.

Integration with Prime Brokerage and Clearing

Clients can take advantage of full integration with Goldman, Sachs & Co. Prime Brokerage and broker-dealer clearing services with GSEC, L.P. Start-of-day position feeds ensure that positions are available in the REDIPlus EMS. All trades executed via REDIPlus are seamlessly delivered to accounts. In addition, REDIPlus has electronic access to Goldman, Sachs & Co stock lending desk. **Read more about our integration with Prime Brokerage.**

And Another…

- **BNY ConvergEx's Vortex Dark Pool:**



BNY ConvergEx Group

Where trading and technology converge

LIQUIDITY AND EXECUTION MANAGEMENT | INVESTMENT TECHNOLOGIES | INTERMEDIARY AND CLEARING SERVICES

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OUR CLIENTS
OUR NEWS & VIEWS
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CONTACT US
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OUR LOCATIONS
OUR STORY
AWARDS AND RECOGNITIONS

Home > Liquidity and Execution Management > Liquidity Management Tools > VortEx℠

Within This Section

CONVERGEX ALGORITHMIC SUITE
CONVERGEX CROSS℠
EMS PLATFORMS
PERFORM-EX℠
TACTEX
VORTEX℠

VORTEX℠ – DARK LIQUIDITY POOL

Connect to Dark Liquidity.

It is estimated that over 10 percent of all trading is now done in the dark. Accessing non-displayed liquidity quickly and efficiently has become a challenge for electronic traders.

VortEx uses a patent-pending process where ConvergEx streaming and resting orders interact with dynamic IOIs from a broad network of external liquidity providers. Critically, our innovative technology minimizes information leakage and latency by only interacting with liquidity providers that are ready to trade.

A Constant Presence.

With VortEx you have:

A Single Touchpoint for Liquidity —VortEx is tightly integrated into the BNY ConvergEx Group execution workflow. This means both smart and algorithmic orders flow through VortEx looking for dark liquidity on their way to the marketplace.

Increased Execution Probability — VortEx Resting orders let you access hidden liquidity over the course of the entire

Buyside Mechanics

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- **Buy 1,000,000 shares of XYZX:**
  - Prime Brokers
    - Internal cross – Credit Suisse, Merrill Lynch
    - Prime algorithms – hitting liquidity pools everywhere
  - Dark pools
    - Match up order flow behind scenes at better prices
    - Goldman SigmaX, ITG Posit, Liquidnet, Pipeline
  - Direct Market Access
    - LavaFlow, BATS; Madoff time slice, Direct Edge, etc.
  - Commission Recapture
    - Stifel, Maxim, Baird, ThinkEquity, Raymond James…
- **Software Executed… BUT HARD WORK**

Yeah…So?

- **IR Folks: If Quants set price, and you measure only in terms of rational thought, are your answers, actions, *correct*?**

- **Vendors: If your tools and services are focused only on helping IROs deal with rational thought, what *opportunities to help* are you missing?**

Recent History:

- **Prime Brokers**
  - Lehman, Merrill, Bear gone or changed
  - Analogy: like fewer airlines, pressed for profit
- **Assets and values**
  - CDOs as assets - uncertainty of value, ratios
  - Intertwined obligations: hedges, swaps, etc.
- **Fed Monetary Policy**
  - Impacts the value of assets…and all contracts
  - 1800-1900 buying power steady. Now…no.
- **Volatility**
  - Always a by-product of risk, inefficiency

Great IR/IR Services Today:

- **IR**
  - Still Must Target, Message, Measure
  - ALSO must understand market structure
    - Strategy in context of business
    - Tactics in context of liquidity, trading activity
    - Know stock as trading vehicle, investment BOTH
  - Key tools: targeting, trading, communications
  - Mindset: Equity is a product, Efficiency is key
- **Services**
  - Help IR folks understand equity as a product, achieve program efficiency…look good at management table

Bold Ideas:

- **IR**
  - Time news, earnings, so as not to conflict with speculation, risk-management
    - Options Expirations, month ends, program resets
  - Combine with peers to basket the buyside
  - Respond tactically to market structure – always right for someone
- **IR Services**
  - Newswires – help clients rethink timing of news flow, help table data for quant systems
  - Targeting/surveillance – incorporate liquidity considerations

A Free First Step:

