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After-hour trades more risky niche than game-changer

By Keith Regan
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"Some see it as a boon, others a curse, but just a few months after trading after the closing bell has been opened to everyone, one thing seems certain: "The stock trading day is going to continue getting longer before it gets any shorter. The New York Stock Exchange actually slowed the move toward a 24-hour trading day by delaying all-access after-hours trading, in part because of Y2K concerns, until sometime next year. But judging by the popularity of after-hours trading on the limited Internet sites that offer it already, the setback will prove just a temporary delay."

So read the lead on the front page of the Boston Business Journal's Focus section almost 10 years ago (the actual run date was Dec. 17, 1999) when online banking was a shiny new phenom.

When after-hours trading was first opened to individual investors a decade ago, the move was seen as a signal of things to come, a first quantum step on the road to around-the-clock, exchange-free trading — and a potentially perilous pitfall for individual stock traders.

Ten years after the New York Stock Exchange finalized plans for after-hours trading, many of the predictions of how dramatically after-hours trading would change stock investing have proven premature, while the warnings remain valid.

"At that moment in 1999, markets were still soaring, everyone was a day trader or knew a day trader and investors were clamoring for access," said Larry Glazer, managing partner of Mayflower Advisors in Boston. "But we've learned many times that it's easy for investors to over-estimate their own abilities. In after-hours, you can get into a situation where a single point of data or a simple comment from Jim Cramer can move a stock on virtually no volume."

Major stock market averages have seen two 50 percent declines since the advent of after-hours trades, Glazer noted, suggesting that additional access to markets has done little to smooth out volatility.

What made after-hours trading treacherous then still applies today, Glazer and other said: Stocks trade on relatively low volume after hours, setting the stage for increased volatility. Add in breaking news, such as earnings releases, and the occasional presence of institutional investors and it can be a dangerous, difficult place for individual investors.

Of course, after-hours trading is one of many changes wrought to stock markets in the past decade. Many of them stemming directly from advances in technology that made real-time trading possible on a global scale. In fact, investors who want access to alternative stock-trading opportunities now have a slew of such options that didn't exist in 1999, such as futures and options and exchange-traded funds trading on a number of round-the-clock electronic platforms.

“The retail investor still needs to be careful,” said John Horcher, director of sell-side sales and support at First Coverage, a Boston-based provider of investor sentiment data who is himself a former NYSE specialist helping to make a market in specific stocks. “I remember being up to my knees in paper in 1987. That way of life is in the past, but the old system provided some balance that is not always there in after hours trading.”

In some ways, the round-the-clock trading predictions being made a decade ago as electronic exchanges first became open to the public have come true, but with after-hours trading a relatively minor role in that revolution.

“If someone really wants to trade around the clock, they can,” said Brenda Wenning, principal of Wenning Investments in Newton. She noted, for instance, that stock futures trade 23 hours and 45 minutes each day on the Globex platform, an electronic trading platform used for derivative, future and commodity contracts. Globex runs continuously, so it is not restricted by borders or time zones.

Even there, however, low volume can make trading more challenging. “Institutions are what move the markets and they are mainly focused on trading during the business day.”

Wenning, employs an active approach to preventing losses in stock portfolios for her clients but does not day-trade. In fact, compared to the expected trends in 1999, there are few day traders, the type of investors most likely to seek the opportunities in after-hours trading.

“The concept of giving individuals access to where institutions only could go is a good one,” said Mayflower’s Glazer, noting that the recent market recovery is rekindling interest in individual stocks again. “The risk you run is that people start to confuse bullish market trends with brains and insight. That’s when things like trading after hours can become even more risky.”