TRADING GLOBALLY

The future. The securities business is all about the future—
trying to choose which investments will bring the largest
financial gain with the smallest risk in the coming months and
years. Being able to see into the future would be an advantage in
this business almost like no other. But four successful alumni of
the University of Maryland School of Law who have made their
careers in the securities field agree that if there is one thing they
cannot do, it is predict what the markets will do in the next 20
years, 20 months or 20 days. In their world, even the most knowl-
edgeable and powerful executives are forced to hedge their bets by
preparing for every conceivable market contingency.

American Stock Exchange Vice President for Enforcement
Philip J. Axelrod ’65 admits he could not even predict what influ-
ence a newly Republican-controlled Congress would have on the
securities market. “If I knew,” he says, “I could make a million
dollars. I have absolutely no idea.”

These four men have identified, however, a number of general
trends that securities are likely to follow over the next decade or
two. Investing will become even more global in scope and com-
puterized in practice. This expansion and technology will create
the necessity for updates in ways to enforce stock exchange rules
and federal securities laws. Institutions will dominate trading
activity in the world equity markets. And American investors will
take more personal responsibility for providing for their retirement
needs rather than relying on Social Security payments.

The mega trends of computerization and internationalization
are intertwined in a mutually dependent relationship. Perhaps the

by Sherry Slater

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best way to understand them is to go back to the beginning, when the trends first emerged some 20 or more years ago.

MANAGING INVESTMENTS WITH COMPUTERS

T Rowe Price Associates Inc. Managing Director and Legal Counsel Henry Holt Hopkins '68 has seen many changes in the 23 years since he joined the Baltimore investment advisory firm. As technology has grown more sophisticated, so have the financial instruments that T. Rowe Price and other investment advisory firms can offer their clients. "The computer has already had a tremendous impact on our industry," Hopkins says. "Mutual funds as they exist today would not be in existence if it were not for the computer."

Hopkins points to the staggering amount of accounting work involved in crediting shareholder accounts with daily accrued interest in fixed income funds. "We would not be able to handle the shareholder accounting if we did not have the computer," he says. "Money market funds would not be able to exist... There would be no way to mechanically do the computations necessary on a daily basis."

There is a direct and necessary tie between the computerization of securities and the growth of international trading, according to Hopkins. T. Rowe Price formed a joint venture with the United Kingdom's Robert Fleming Holdings Limited in 1979 to manage institutional money and mutual funds. And computers allow Rowe Price-Fleming International Inc. to do just that. It manages seven equity international funds, four fixed income international funds and has $18 billion in total assets managed, mostly in mutual funds. Parent company offices in about 17 coun-

tries feed information to the joint venture. "The computer has facilitated the recordkeeping for all of the foreign securities that we hold," Hopkins notes.

Mutual funds are bought and sold each day the stock exchanges are open. This trading creates the need for T. Rowe Price to set the value for its mutual funds every day, a price determined by tallying the value of each asset in each mutual fund. "We get basically hundreds of thousands of transactions coming through our offices every day," Hopkins says. "You can imagine with approximately 17 mutual funds, each one owning anywhere between 100 and 200 securities, that we have to do a lot of computations every day to arrive at the net asset value of the fund on a per share basis."

Pricing the 11 foreign funds creates an even greater technical challenge, requiring the firm to get prices from countries all over the world. "This can only be done if we have an effective communications system with all these countries," Hopkins explains. "In 1973 it would have been virtually impossible to price a foreign fund because of the lack of sophisticated communications networks worldwide. It would have been simply too unreliable."

The increasing presence of computers in the securities industry is lessening some risks of investing. NASDAQ became the world's first electronic stock market when it was created in 1971. Today, of the 22 leading world stock markets, 13 are screen-based and only nine are floor-based. National Association of Securities Dealers President and CEO Joseph R. Hardiman '62 predicts, "By the end of the decade, it's likely that there will be less than a handful of floor-based markets." Hardiman explains the regulatory advantages of computerized trading markets this way: "New computerized systems have significantly shortened the time it takes to respond to unusual trading activity. It's also much easier to share trading information between markets—domestic and international—which
enhances regulation and investor protection worldwide.”

The international boom is not attributable simply to technology, however. International markets had to develop and grow steady as well, according to Hopkins. “In 1973 there were not a large number of well-developed, reliable securities markets in other countries. Since that time, securities markets in developed, underdeveloped and even developing countries have dramatically matured and prospered. So that today you’re getting far more cross-investing from country to country . . . It’s really quite a revolution, and we just hope that it continues.”

**IT'S A SMALL WORLD AFTER ALL**

NASDAQ's Hardiman has noted the cross-investing revolution as well, and he has the numbers to illustrate his point. “The value of cross-border transactions in nondomestic equities topped $1.1 trillion in 1991. This is up from only about $150 billion in 1980 and around $400 billion in 1985,” he says. “Current projections are for that number to reach $5 trillion by the end of the decade.”

The internationalization of securities creates a growth opportunity for participating countries, according to Hardiman. “Imagine what it means to make capital available to vastly more companies and to vastly expand the global capital pool,” he continues. “It means higher living standards, more technological progress. It means strong, free-market economies that themselves are forces for greater political and economic freedom. China is building a screen-based securities market to supplement its exchanges. How long can its political system stand against the tide of economic freedom? Our markets are powerful forces for good in an age of change and hope.”

T. Rowe Price’s Hopkins observes that global financial realities mean that, at any given time, some countries are doing better financially than the United States is. “One of the great things about being able to offer mutual funds that invest across the world is that a person can diversify his or her investment to gain equity in securities that not only are U.S.-based but also are based in other countries,” he explains. “And by diversifying their investment, they can reduce the volatility of their holdings.”

Despite the almost feverish activity of investors, Alex. Brown & Sons Inc. CEO Alvin “Buzzy” Krongard ’75 is ever mindful of the additional risks international investing poses to clients of the Baltimore-based investment banking company. “There is no economy or government in the world that is as stable as that of the United States,” Krongard asserts. “So any investment outside the United States obviously means greater risk. The question is, is the reward potential commensurate with the greater risk?”

**A TRIO OF PREDICTIONS**

NASDAQ’s Hardiman has noted the increasing domination of institutional investing in the international market. “In mature markets like the U.K., Europe and Japan where institutional participation has traditionally been strong, they continue to dominate trading activity,” he says. “Currently in the U.K., 80 percent of the market is institutional, 20 percent individual . . . The emerging Asian markets, on the other hand—such as Korea, Taiwan, Singapore and Thailand—while currently dominated by individuals—are experiencing increased participation by institutions.”

Hardiman adds that the trend is likely to affect how international markets do business. “Foremost,
"There’s no such thing as a free ride in this industry. There will always be some sort of risk."

Philip Axelrod, AMEX

It requires markets to meet the demands of institutions for liquidity and immediacy,” he says, “which in turn requires higher levels of capital commitment by intermediaries. It also puts competitive pressure on markets to be fairly regulated. All other things being equal, institutions—and individuals—will opt to trade in a regulated environment that is fair, rather than one where regulation is lax.”

The AMEX’s Axelrod sees the internationalization of securities causing a ripple effect of changes in his field of enforcement. "You will see... a cooperative effort among the various national exchanges—the nations themselves—to surveil and share trading information so that we here in the United States can get a feel for the kind of trading that’s going on in American issues and securities in Europe, as an example, and too so that we can share this trading information and regulate our market. We currently have agreements—and we’ll have more agreements—with governments to share this kind of intermarket surveillance documentation and information—all for the protection of the public.”

Although most people in the investment industry are honest, Axelrod says, there are always those few "miscreants" who try to make a dishonest living there. "There will always be somebody who will try to get away with something," he points out. "One hopes that we will make it a lot more difficult to get away with it."

Alexxrod sees a future with investment opportunities that are not even in existence today. "Products are only limited by people’s imaginations," he notes. "Just when you think you’ve seen everything, you’ll see something brand new. Some of them are good. Some of them are maybe not so good." Esoteric investment instruments are just another reason why the buyer should beware, in Axelrod’s opinion. "You don’t get a free ride even though you seem to be getting a higher than normal return on your money,” he warns. “There’s no such thing as a free ride in this industry. There will always be some sort of risk.”

T. Rowe Price’s Hopkins has noticed a growing tendency among investors who try to take the risk out of retirement by taking personal responsibility for financing their golden years. “A large majority of our accounts are accounts which are clearly earmarked for retirement,” he says. “Social Security simply is not sufficient, and I think we all know people who have a high anxiety level over where Social Security is going. So private financing of individuals’ retirement nest eggs is really the major area that we focus on.”

STRIKING THE RIGHT BALANCE

The movement toward more computerized and more global trading in today’s securities market is well-established, and all signs point to the trends playing a key role in trading’s future. Hardiman and Axelrod note the likely development of a 24-hour global market as a result of the trends. But even as the markets continue to grow in number and complexity, they will continue to challenge even the most experienced prognosticators.

These four men deal with the future in a very real way every day. But they are wise enough not to try to predict it. Alex. Brown’s Krongard, for one, is not looking for a way to anticipate the next big investing trend and ride it to fast and fantastic profits. He believes in the no-fads, no-hype, no-gimmicks approach to investing. "We try to run our business in such a fashion so as not to be particularly impacted by the future," he says. "For example, we stress fundamentals like balance and focus. We want to keep a balanced firm so that if one wheel comes off we have three others to ride on. We don’t put all our chips on one number."

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