Transcript

The Ideas Exchange
Episode 6: Changing times, changing markets

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Voice Over [00:00:02] Welcome to the Monthly Ideas Exchange podcast brought to you by ASX, The Heart of Australia's financial markets. Each month we'll connect you to a range of leading industry experts who'll give you a look into the finance industry and deliver valuable insights. Hear about important market events, industry research, tips for your own market research, as well as innovative products to help you diversify your investment portfolio.

Martin Dinh [00:00:34] Hi everyone, I'm your host, Martin Dinh, and welcome to the Ideas Exchange podcast by ASX. As we reach the halfway point of 2021, I thought this would be a great time to recap some of the major trading trends that we have seen on ASX over the last 12 months and also unravel one of the biggest stories that has occurred over the last year, namely the GameStop saga. To help me answer some of those questions, I'll be joined today by Graham O'Brien, Senior Manager of Equity Derivatives at ASX, as we draw on Graham's 20 years of experience at the ASX to help us unpack some of those topics. So a fun episode lined up. Let's get right into it with Graham.

Martin Dinh [00:01:16] Hi, Graham. Welcome to the Ideas Exchange podcast. It's great to have you here today.

Graham O'Brien [00:01:22] Thanks, Martin. Pleasure to be with you.

Martin Dinh [00:01:23] So, we've reached the halfway point in 2021 and a lot has happened. Some of the major stories include our ongoing battle with the coronavirus pandemic, the S&P ASX 200 reaching its all time high, surging iron ore prices, managing our ongoing tensions with China and also dealing with rising inflation expectations, just to name a few. Now, with all these stories unfolding, Graham, I was wondering if you could share some interesting statistics around some of the trading activity that you've seen that has occurred on ASX over the last year or so?

Graham O'Brien [00:02:00] With all those ideas it's been a busy year, hasn't it? And it's definitely been a busy year on the ASX. We've had trading turnover in our share market grow from what's normal average, around 13 billion dollars of trade a day traded on the ASX. We're now up to 15 billion dollars a day trading just in the shares that you see on the ASX each and every day. And that's been steadily growing ever since the onset of covid. It's actually been a very busy year for the exchange.

Martin Dinh [00:02:26] So you've mentioned that it's been a big year in terms of increase in terms of trading activity that has occurred on the ASX. I was wondering, though, did you identify any interesting trends in terms of what type of brokers or investors were actively trading the most? You know, for example, did you see a big uptick in trading activity from online brokers, full service brokers or brokers that serve institutional clients?

Graham O'Brien [00:02:53] It's really been the online broking trend that we've seen at the ASX that really has increased this activity that we're seeing on the exchange each and every day. I think it really all started way back when covid first came into the market. We had the market sell off. A lot of people tried to take advantage of probably what was an oversold market at that particular point in time. We've seen the retail area of our market grow from what would normally be around about 12 per cent of the total market turnover on ASX, retail now makes up 20 per cent of all activity on the ASX. So almost a doubling in activity that we have seen from retail brokers and predominantly online retail brokers.

Martin Dinh [00:03:32] Wow, that's incredible. That statistic, 20 percent. That's incredible. So you've mentioned that there's been an increase in trading activity from retail brokers and in particular online brokers. Are there any particular reasons why you think there has been an increase in trading activity from retail investors?

Graham O'Brien [00:03:52] We kind of touched on it. There's been this interest in the share market since the onset of covid, and really it was all brought on by people trying to pick up some cheap stocks in the market. That was really done through ETFs or exchange traded funds at that point in time, people building their portfolios. But once people got the hook of being involved in equity markets, a lot of them new and younger investors, they wanted more. A lot of them were actually working from home at the time. They had more time to research stocks. And we had all of the online brokers providing more and more services to clients to trade on their phone or even get all the research that they need online for trading in the share market. So there was a general excitement about share markets. I think you'd go to a barbecue and almost someone was talking about shares rather than property again. And really that's extended into people's trading appetite, understanding more about the market, understanding more about stocks and really trading on those views that they have in the underlying share market.

Martin Dinh [00:04:44] I think those are some great points. I believe that, you know, the increase in trading activity amongst retail investors were probably attributable to, you know, the rapid rise of low brokerage trading applications, the ability for investors to micro invest, so they can start their investment journey now with as little as 500 dollars, and you touched on another great point, that investors can also access mobile trading applications, which are so easy to use, they can basically conduct a trade in one or two clicks. And you touched on another great point as well about the accessibility of information and data. At the moment, all this information now is readily available via trading applications, websites, social media platforms, blogs and other online websites. Interestingly, in our ASX investors study, one of the most interesting findings that I found was that one of the biggest obstacles to investors actually entering the stock market was actually the absence of information. So you've made some really good points. Interestingly, I think, though, that there is a combination, though, of not just making investing more accessible, but could be also like a combination of the rampant government stimulus, a low interest rate environment. And you touched on a great point of investors looking to capitalise on opportunities from the heightened market volatility. I guess my only caveat to this, and let me know what you think, is that we actually haven't seen a serious pullback yet. So I think, you know, most of the amateur investors that have entered into the market have done pretty well. Right. S&P ASX 200, which comprises of the 200 biggest companies on the ASX, and the S&P 500, which comprises 500 of the biggest, largest US companies, they're all at all time highs. So I think when we see a serious setback, do you think that maybe, possibly we'll see a fall in retail trading activity?

Graham O'Brien [00:06:42] Look, I think there's some cautious optimism about the market going forward. And I think as we continue to come out of the covid world and markets continue to open up and we can get back to travelling again, I think there's definitely opportunities for revenues for companies going forward. Every time there is a pullback in the market, generally, immediately we see an increase in retail activity, often with people selling out, unfortunately, sometimes at the worst possible time. But it gives rise to opportunities to buy back in again. I think people need to understand the companies that they're buying on the ASX or what they're holding in their portfolios and what risk is involved in that. You mentioned interest rates being at record lows while we've got markets at record highs, being involved in equity markets there is risk. How much risk are you willing to take on your portfolio will determine the activity of those retail investors. But I think retail investors are much more educated than they ever have been. So there is good understanding of that risk reward appetite in the market.

Martin Dinh [00:07:39] Now, I wanted to dive a little bit deeper into the trading activity that's occurred on the ASX over the last year or so. Could you tell me what were the most frequently traded stocks?

Graham O'Brien [00:07:49] What were the most frequently traded stocks? Now, maybe we could compare it against five or six years ago. It's actually changed remarkably. What's the talk of the town at the moment? It's all the buy now, pay later sector. Zip and Afterpay are the top two traded stocks on the ASX at the moment. You then start moving into some of those resource stocks that you touched on, with iron ore back up at near record levels, Fortescue, another key stock that's performed quite well in the market. Lots of people having exposure there. Commonwealth Bank is at its all time highs, lots of interest. And CSL, our biggest stock on the market, still sees a lot of activity in those stocks. So it's definitely tech, resources, a little bit of banking because it's at record highs and CSL are really the stocks that we see today. Versus five years ago, it was all old school economy. The top four banks were pretty much always in the top five stocks, add in BHP and Telstra, and that was really the appetite of investors five and six years ago. So it really has changed with the market itself and people's appetite for taking technology into their portfolios in Australia has improved.

Martin Dinh [00:08:59] Yeah, there's some interesting stocks that you mentioned there, and it seems like investors were turning to the familiarity, amidst the uncertainly so they could turn to some of the stocks that they were most familiar with, such as, you know, your CSLs and CBA. But the interesting point that you mentioned that kind of stood out was that there's been a rise in technology stocks. And I think investors were looking for stocks that were looking to benefit the most from covid-19, right? Like Afterpay and Xero. So I thought that was an interesting way for investors or an interesting investing approach from investors amidst the uncertainty.

Graham O'Brien [00:09:38] You know, I think a lot of people are looking forward with their investing a lot more than looking in the past. I think five or six years ago, everyone was just looking for where can I get my yield? Where can I get my income? Which for the companies that paid decent dividend streams, they're the ones that had my portfolio. And when I think about investors today, it's all about capital growth that people are really trading for at the moment. And where do they see the future of share prices and how can I profit from those increases in share prices, more so than opposed to picking a stock just because it pays a decent dividend stream.

Martin Dinh [00:10:09] So Graham, we've talked a lot about the rise in trading activity amongst retail investors. And this is a perfect segue to our next topic, namely the GameStop saga. Now, this is a wild story about a battle between retail investors and institutional investors on Wall Street. Although I think many of us are familiar with the story, I don't think many actually understood what actually happened and that's including myself. So, Graham, I was wondering if you could give us a rundown of what actually happened in the GameStop saga.

Graham O'Brien [00:10:43] It's another covid story, effectively, is GameStop. If we go back to the beginning and the covid outbreak, especially in the United States, lockdown's occurring everywhere. A lot of retail investors getting involved in the share market. And they picked a stock called GameStop. They really felt that everyone having to be stuck at home, not being able to get out and see their friends, go out on weekends, they really felt we were going to go back to the good old days of people playing computer games at home. That was really the thought of retail investors and what stocks would benefit? Well obviously those that are selling computer games through to investors. So there was a lot of activity and a lot of social media, and Reddit is one of the social media platforms that we hear about of people talking up GameStop as a stock just because it was something that they thought people would be getting involved in, in the gaming industry and buy more computer games. Over time that grew and people bought more and more stock. But then you mentioned the battle against the institutions, the reporting and the sales and revenue that GameStop were reporting back then wasn't what the market expected. They thought they'd see an explosion in revenue and explosion in uptake of people playing computer games at home. It wasn't showing in their numbers. So the institutions and especially hedge funds started shorting GameStop and they shorted to take advantage of what they thought was going to be a significant fall in its share price. Hence, then we had retail investors thinking GameStop share prices going up, institutional investors looking to take advantage from a fall in that share price. Then we had the social media stream of let's all go against the institutions. A lot more buying come off the back of that activity, a lot more interest, which then put pressure on those short positions of the institutions which then they had to cover. And we saw a significant increase in GameStop share price as a result.

Martin Dinh [00:12:30] I don't know about you, Graham, but I think this GameStop saga has been one of the most intense or wild stories in my financial career over the last 10 years. What do you think? Has it been one of the most wildest stories that you have seen over your long tenure?

Graham O'Brien [00:12:45] Look, it's not often that the retail person gets the institutions. I think they caught them unawares for sure. There was definitely a feeling that, I short this stock, it's going down. The revenues were terrible, but they didn't pick that retail investors getting together. What was it Wall Street beats or something?

Martin Dinh [00:13:02] Wall Street bets.

Graham O'Brien [00:13:03] Wall Street bets was the hashtag on Reddit at the time. And a whole bunch of investors got together and they were buying shares, buying options, which drove the share price up in GameStop. And the hedge funds really only had one choice then. When the market started moving against them, they had to cover their losses. And the only way that it could cover is then go and buy back those shares and push the share price even higher. So I think over time, I'm sure there'll be lots of papers. Even university courses are written about the GameStop saga because it is one of those once in a generation trade that we've seen in the market.

Martin Dinh [00:13:36] You mentioned the term shorting, for those that are not too familiar with that term. What does that exactly mean?

Graham O'Brien [00:13:42] It's actually trying to take advantage of a price falling in value. So what an institution or a hedge fund in this particular case would do is actually sell the stock before they even own it. And what they need to do is they sell that stock and try to buy it back at a lower price later in the future to try and profit from a fall in that share price. So it's basically the flip side of someone who goes and buys a share and hopes it goes up in value. We're actually selling the share before we own it to try and take a profit as it was actually going to fall.

Martin Dinh [00:14:09] And what products do investors typically use to short a stock or a particular area of the market?

Graham O'Brien [00:14:18] So shares is a way to do it, you might short sell those shares. I can use futures contracts as well, to take a short position on the market and try and see that market fall in value and profit from that fall. I can also go and buy put options from the options market, which profit as the market's falling in value. So there's a number of different ways that investors can take short positions on the market. For retail investors, generally, options market is the way that they're looking towards, it's a little bit difficult for retail investors to short sell shares. And once again, there's a fair amount of risk involved in futures trading. So people will often buy put options to try and profit as the market's falling or even protect their shares.

Martin Dinh [00:14:57] You make a really good point about, you know, shorting or using products to profit from a decline in the market. It can be quite risky because when you take a long position, the maximum you can lose is your initial outlay. But on the flip side, if you're trying to profit from a decline in a stock and it moves in the opposite direction, because a share can hypothetically rise to infinity, your losses can be infinite. Is that right?

Graham O'Brien [00:15:24] Yeah, that's exactly right. And that's if I was short selling a share or I was using a futures to short the market. However, products like options and warrants have predetermined maximum losses embedded within their structure. I guess options, when you think about the name, the option is an option to do something in the future when you buy it, so you don't have an unlimited risk profile when you're using an option or a warrant in that particular case as opposed to a share or our future.

Martin Dinh [00:15:50] Back to our topic of the GameStop saga. This is a question I've thought about for a while. Do you think something similar like this can occur in Australia?

Graham O'Brien [00:15:58] Look, it'd be difficult to happen in Australia. We have regulation around short selling in the Australian market. One of those regulations is before someone can actually sell a stock, before they own it, they need to have borrowed that stock from someone else. That generally puts a little bit of a restriction on how much can be short sold because you need to find who will actually lend you that stock first. Also, there's restrictions around our options market in Australia. So you can only hold so much of the open interest via the options market, much more regulation in the Australian market. But I think we need to be mindful that that doesn't mean that markets can move off the back of not much news. GameStop over in the United States had the code GME over in the States, and we actually have a stock on the Australian market also with the ticker GME, GME resources was that company. It rallied from three cents to eight cents as GameStop was also rallying over in the United States, just off the back of investors buying the ticker code GME. The company, GME Resources, actually came out to the market and made an announcement, said, look, there's nothing going on with our stock. There's no new news to point to the market. It's just because we have the same ticker as GME. So there are instances where markets move off the back of just having same tickers in this case. But definitely from a short selling perspective, it's very clear how much is short sold in stocks in Australia. And because of the restrictions around short selling rules, much less of a chance of the same thing happening in the Australian market.

Martin Dinh [00:17:25] During my research for this podcast, I actually found some pretty interesting statistics. So you noted that the probability of something like the GameStop saga happening in Australia is quite low. It doesn't appear to have deterred from local investors actually looking to get access to GameStop style stocks. So, for example, during my research, I found that on CommSec, the two most frequently traded stocks, and this is international stocks by the way, was GameStop and AMC Entertainment. For our listeners who are unsure of or don't know what AMC Entertainment is. It's basically another company that has experienced wild price swings due to the tug of war battle between retail investors and institutional investors. Another interesting thing that I found so, you know, I work a lot with ETFs. There was an example of a short squeeze in silver based on some retail investors on Reddit trying to attempt something similar. So what we found was that in early February, when this was at its peak, the ETFs silver, physical silver, traded over 66 million dollars over two days. And just to give you a bit of context, it generally only trades one point five million dollars a day. So even though the probability of something like the GameStop saga happening in Australia is low, it hasn't stopped some investors, local investors, looking to get access to some wild price swings of stocks that are impacted, like what is happening on the GameStop saga.

Graham O'Brien [00:18:56] Yeah, definitely movement gets interest from the market. I think the important thing on those three underlyings that we're talking about was they weren't domestic shares. So it was things that were probably regulated outside of ASX and ASICs remit. So definitely you're talking international shares and also a commodity in that particular case. The short selling side of things is definitely much more difficult on Australian shares themselves.

Martin Dinh [00:19:20] Well put, Graham. And final question before we wrap it up. For our listeners who are interested in getting more information or data in terms of the trading activity that's occurred on ASX, where can they head to?

Graham O'Brien [00:19:30] First place to head to is obviously the ASX website. It has a raft of information on trading activity that's happening in the share market. We spoke about ETFs as well. If people are interested, there are a raft of information around what ETFs are available and what their performance looks like, all the way through to the options that we also touched on of getting more educated and understanding of how the options market works. A really good resource to get you started in the share market, but always look to your brokers as well. If you have a broking account, they have a host of information, often research on companies in the Australian market as well. So utilise, I look at it, free resources across the market, whether it's ASX resources or resources that are provided by your broker.

Martin Dinh [00:20:11] Well, Graham, that wraps up this month's episode of the Ideas Exchange podcast. Thank you so much for taking time out of your day to share some really interesting trends in terms of the trading activity that's occurred on ASX, as well as giving us a one on one on the GameStop saga. We look forward to welcoming you back down the road.

Graham O'Brien [00:20:30] Cheers, thanks Martin.

Martin Dinh [00:20:30] Well, that concludes today's episode. It was great learning from Graham about the dramatic rise in trading activity that occurred on ASX post the peak of covid-19, the exponential growth in retail trading activity, and finally, uncovering what actually really happened in the GameStop saga. In next month's episode, I'll be joined by Damon Gosen, Director of Business Development at VanEck Australia, as we chat about the meteoric rise of eSports and how investors can incorporate this theme into their portfolios. Until then, thank you for listening. And we look forward to you joining us next month.

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