Tracking Retail Investor Activity Discussion at ABFER.

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Overview

- An important question: Are retail investors informed? Implications for, among other things, regulation.

- Confronts the standard problem: Identifying retail activity is hard.

- Two approaches:
  - Develop an inference technique to use on public data: Campbell, Ramadorai, Schwartz (2009).

- This paper falls into the second category.
A New Approach

- The technique these authors follow to infer retail activity is novel.

- They use FINRA regulations about transaction reporting facilities (TRF) for off-exchange transactions.

- Their technique is to identify transactions with small price improvements, less than a penny, and code such transactions as retail (market) buy and sell orders.

- They use these inferred flows to construct measures of retail investor flows, and investigate relationship between these flows and past and future stock returns.
Understanding the Approach

- This is a new inference technique. So authors need to persuade us that the measure indeed captures retail activity.
  - Significant omission in the paper – little cross-checking with other sources or measures.
  - Different possibilities include matching to 13-F filings, or using TORQ data.
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- Minor: Why normalize order flow by gross shares traded by retail investors? A more natural scaling might be market capitalization.
A Quibble (but an Important One)

- Clearly evident that small trades associated with direction of institutional flow, especially in small and medium-sized stocks!
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  - Retail investors sell following peaks and buy following troughs in returns (Table 2). Classic liquidity provision strategy. (Nagel, 2012).
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  - On page 14, and Figure 2, authors show that predicted returns revert over 6-8 weeks.
- Authors could temper claims of informed retail investors.
Conclusion

- A promising addition to an important literature.

- Authors have some work to do on:
  - Persuading us that the measure captures retail flow.
  - More plausibly interpreting the results.

- I look forward to seeing future versions of the paper.

- Good luck!