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:
  - Use proprietary data: Kaniel, Saar, Titman (2008), Kelly and Tetlock (2013), Barrot, Kaniel, Sraer (2016).
  - 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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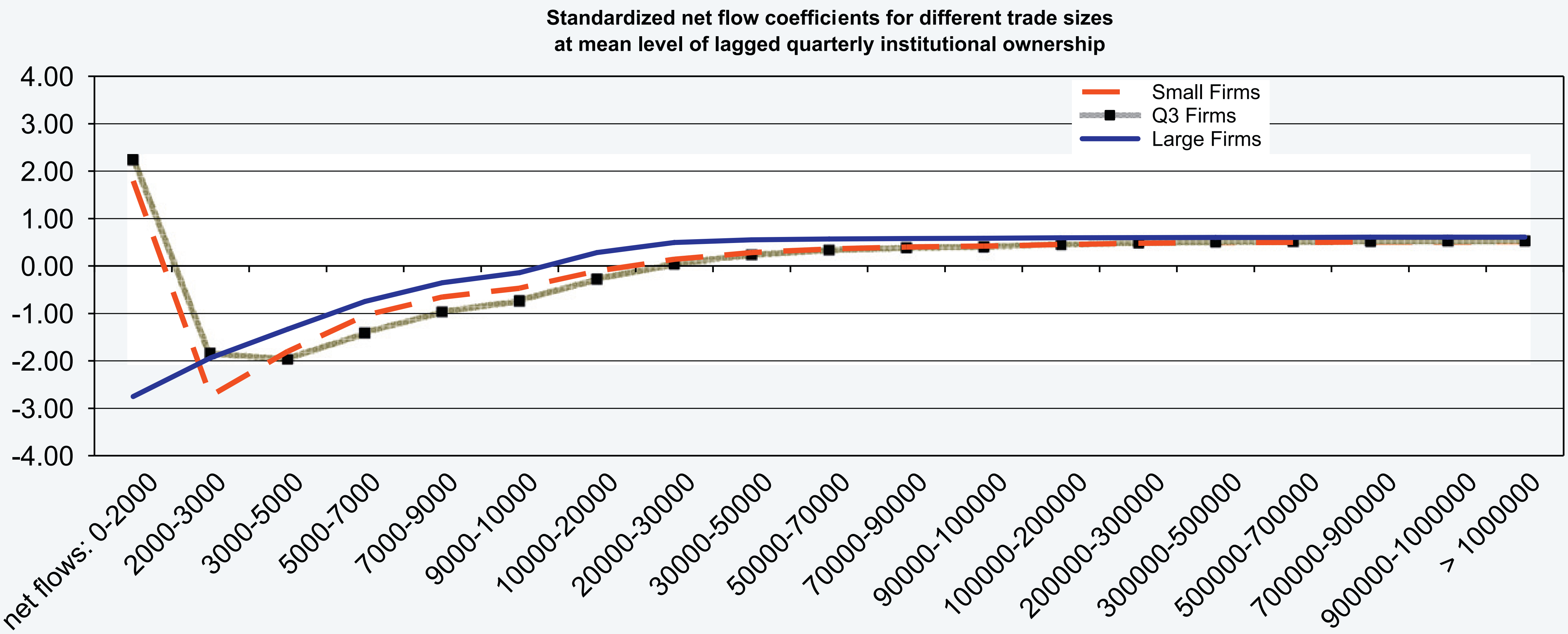
- Minor: Why normalize order flow by gross shares traded by retail investors? A more natural scaling might be market capitalization.

A Quibble (but an Important One)

J.Y. Campbell et al. / Journal of Financial Economics 92 (2009) 66–91 77



- 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!

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