

**Philequity Corner (June 20, 2011)**  
**By Valentino Sy**

**Afternoon Delight**

In a meeting two weeks ago, the newly elected Board of the Philippine Stock Exchange (PSE) agreed to formulate a policy regarding afternoon trading. The tentative proposal is to have a lunch break after morning trading and an afternoon trading session from 2:30-4:30 PM. During the past week, we received comments from various brokers and investors who are for and against the proposal. We also learned that many brokers have signed a petition against this proposal by the PSE management. Enumerated below are their arguments for and against afternoon trading.

**Pro-afternoon trading**

1. Longer trading hours will lead to higher trading volume.
2. The PSE management's proposal will align the local market with the rest of world.
3. Most European markets open at 4:00 PM. By closing at 4:30 PM, we will be able to partially catch European trading and increase foreign participation in our market.
4. Local brokers who are opposed to afternoon trading are lazy and just want their "afternoon delight", which includes playing golf.
5. Small brokers who oppose it are myopic. They are against it because they lack the employees to run their brokerage professionally. They just need to hire more staff.
6. Since Hong Kong's trading hours run till 4:00 PM, foreign brokers will be able to get orders from their HK offices. This will be beneficial to them and to the local stock exchange because of the additional volume.

**Anti-afternoon trading**

1. This has been tried before and it failed miserably. Back in 2002, the PSE added a 1:00-2:30 PM session. Since additional trading volume did not materialize, this session was scrapped after eight months. Afternoon trading of 2:00-4:00 PM was ready to be implemented again in 2008, but as a result of bad market conditions, the plan did not even get off the ground.
2. The lunch break prior to the afternoon session disrupts the flow of trading. Instead of a continuous trading flow, it will be interrupted by a break which is akin to a midday trading halt.
3. Clients tend to postpone their orders until the close, which results in a very dull market. Since many clients give orders at the close, it is likely that volume will be muted throughout the entire morning and early afternoon.
4. By the closing hour, many trading participants may no longer be around, thus aggravating an already thin market.
5. There will be a trading imbalance if not all clients are participating in both sessions. This can lead to extreme volatility in the closing prices (refer to previous Philequity Corner article *Tsupiteros' Delight, Investors' Fright*, March 7, 2011).
6. Fund and portfolio managers have board meetings, ExCom and client presentations in the afternoon. As such, they may not participate in the afternoon session.
7. Longer trading hours do not translate to higher volume.
8. The afternoon trading session will barely overlap with the European markets since our market will be closed after only 30 minutes of trading in Europe.

9. Exchanges around the world are moving towards a continuous trading session with no breaks, so our policies should have the same direction. For instance, Hong Kong is having a phased-in implementation of the eventual removal of its lunch break.
10. Having more listed companies would have a greater impact on trading volume rather than longer trading hours. Companies that are BOI-registered and get incentives, as well as profitable multinational companies, should be required to list on the PSE.

### **Consensus is key**

It is incumbent on the management to study why past afternoon trading sessions failed. If trading volume is high, then longer trading hours are warranted. But while everyone wants trading volume to increase, all participants should be consulted. This means that feedback should be solicited from organizations, such as the Fund Managers Association of the Philippines (FMAP), the Trust Officers Association of the Philippines (TOAP), and the Investment Company Association of the Philippines (ICAP), the umbrella association of mutual funds. Pension funds (SSS and GSIS), government funds (DBP, Land Bank, etc.) and the various banks with UITFs must also be involved in the decision-making process. Specific fund managers and certain high net worth investors should likewise be sought out. Most importantly, the opinions of the PSE stockbrokers themselves should seriously be taken into consideration. While foreign brokers may know the peculiarities of foreign funds, local retail brokers know the business well and have the most at stake. Moreover, they are in touch with the retail clients, high net worth investors and big traders. Since they are very well informed about the market's movements, getting a consensus from all of them will be very helpful in coming up with a decision regarding the proposed afternoon trading session.

### **Afternoon trading vs. Afternoon delight**

At the end of the day though, if the volume increases substantially and there is money to be made, the brokers who are petitioning against the PSE's proposal will be the first to forego their afternoon delight. However, if there are no signs that trading volume will pick up, strong opposition to the plan will remain. To end this article, we leave you with the first stanza of the song by Starland Vocal Band, aptly titled "Afternoon Delight":

*Gonna find my baby, gonna hold her tight  
Gonna grab some afternoon delight.  
My motto's always been "When it's right, it's right."  
Why wait until the middle of a cold dark night.  
When everything's a little clearer in the light of day.  
And you know the night is always gonna be there any way.*

*Sky rockets in flight.  
Afternoon delight.  
Afternoon delight.*

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