When it comes to stock trading, the devil (and the dividends) is in the details

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Area of Expertise: Financial market microstructure

The volatile financial market of recent years keeps investors on the edge of their seats, frequently checking the status of their stocks. Those same changes create research opportunities for the Dr. Bonnie Van Ness and Dr. Robert Van Ness, UM associate professors of finance, who have had their work posted on the NYSE Web site.

“Much has happened in the financial markets over the last decade,” Bonnie Van Ness says. “Some of the changes have been regulatory in nature, and many of the changes have been initiated by markets due to investor demand. We look at these changes—such as the SEC instituting a new regulation—and try to determine the impact. How did the change affect market microstructure? What happened to the trading costs of the individual investor? How did the move affect the costs the dealers incur?”

The researchers currently are looking into locked-and-crosseed markets, which are causing friction within the trading process.

“In a properly functioning stock market, the ask (or buy) price should be higher than the bid (or sell) price, but due to market changes, that’s not always occurring,” Robert Van Ness says. “A market becomes locked when the ask price and bid price are equivalent, and trading actually has to stop on some venues until the prices reverse.”

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