



Cornerstone[™]
Global Group
LLC

Meeting of International Stock Exchange Executives Emeriti, Inc.

Wyndham Lake Buena Vista Hotel
Lake Buena Vista, FL
April 7-10, 2013



Cornerstone[™]
Global Group
LLC

A Market Analyst's View: The challenges facing traditional exchanges and the opportunities

By

Steven M. Shelton CFP®, CLU, ChFC, TEP, CIMA®, CMT

Securities and investment advice offered through Investment Planners, Inc. (Member FINRA/SIPC) and IPI Wealth Management, Inc., respectively, 226 W. Eldorado St. Decatur, IL 62522. Cornerstone Global Group LLC is not affiliated with Investment Planners, Inc. or IPI Wealth Management, Inc. Cornerstone Global Group LLC does not offer securities advice and is not a member of FINRA/SIPC. Any unauthorized copying, disclosure or distribution of the material in this communication is strictly forbidden. Cornerstone Global Group LLC does not render legal or tax advice, and the information contained in this communication should not be regarded as such. Material is only intended for use with institutional investors and not intended for use with retail investors. Copyright 2013, Cornerstone Global Group LLC
www.cornerstoneglobalgroup.com



Cornerstone™
Global Group
LLC

2013 Media Speak

- Bloomberg: Dark Pool Growth Hurts Investors, NYSE, Nasdaq tell Senate
- WSJ: NYSE Hails Curbs on Dark Pools Overseas
- Wharton: High-speed Trading: Is It Time to Apply the Brakes?
- Australian: Watchdog Dives Into Dark Pool



Cornerstone™
Global Group
LLC

Agenda

- In the Beginning
- Today's Exchanges
- Transformation
- Trends in Structural Trend
- USA Volume Challenge
- Why the Challenges
- Trend About to End?
- Opportunities
- Summary



Cornerstone™
Global Group
LLC

In The Beginning

- 1531 Belgium was the alleged home of the first “stock” exchange
- London Stock Exchange created 1773
- Philadelphia Stock Exchange 1790
- New York Stock Exchange 1792
- NASDAQ 1971



Cornerstone™
Global Group
LLC

Today: an Altered USA Market Structure

- 13 exchanges
- 1+ Electronic Communications Network (ECN)
- Approximately 16 Reporting Dark Pools
- Approx. 200 B/Ds who internalize flow
- Over 280 stock exchanges globally



Cornerstone™
Global Group
LLC

The result: “*Ongoing*” Transformation

- Dominance of public exchanges eroded
- Competition escalated
- Mergers, acquisitions - diversification
- Liquidity fragmented over many venues
- Complexity rose to new levels
- While real volume contracts



Cornerstone™
Global Group
LLC

Trend of Market Structure Change

Equities MarketWide Statistics: as of 11 March 2013

[Equities Regionals](#) [Equities Dark Pools](#)



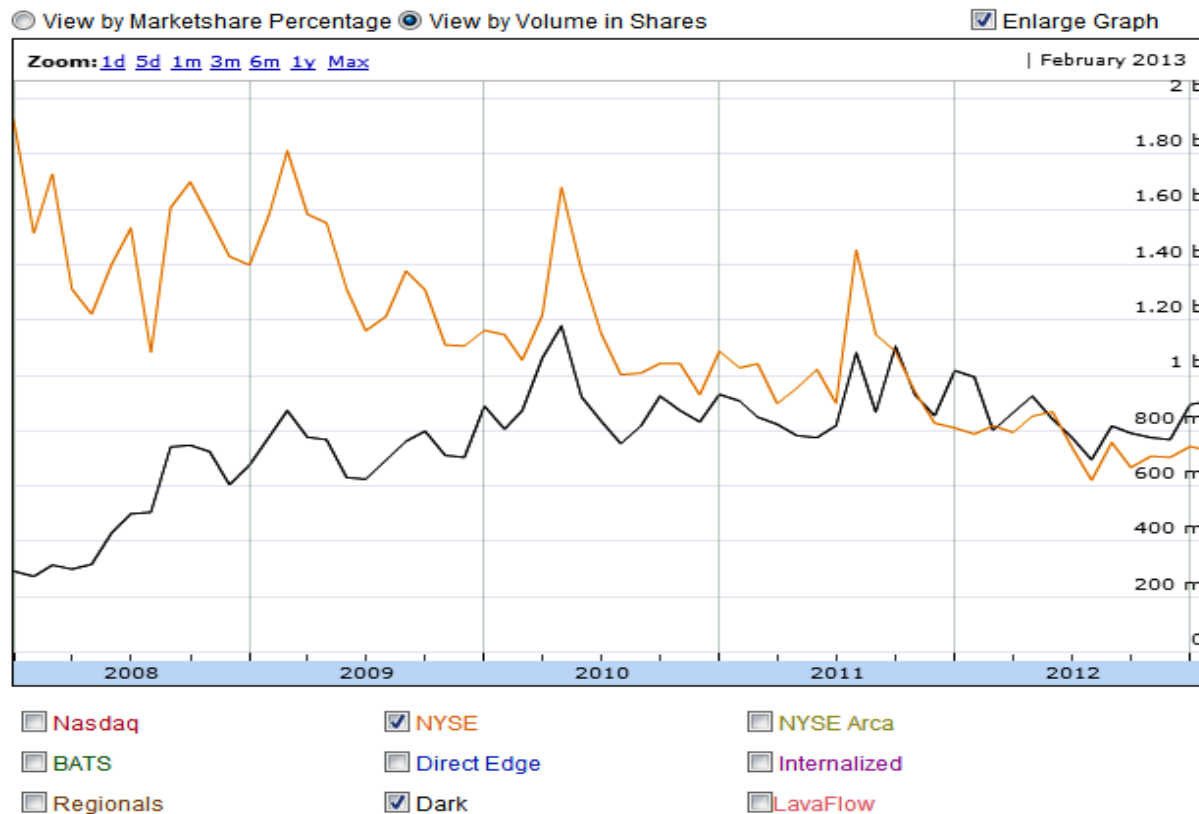


Cornerstone[™]
Global Group
LLC

Trend of Market Structure Change, cont'd

Equities MarketWide Statistics: as of 11 March 2013

[Equities Regionals](#) [Equities Dark Pools](#)



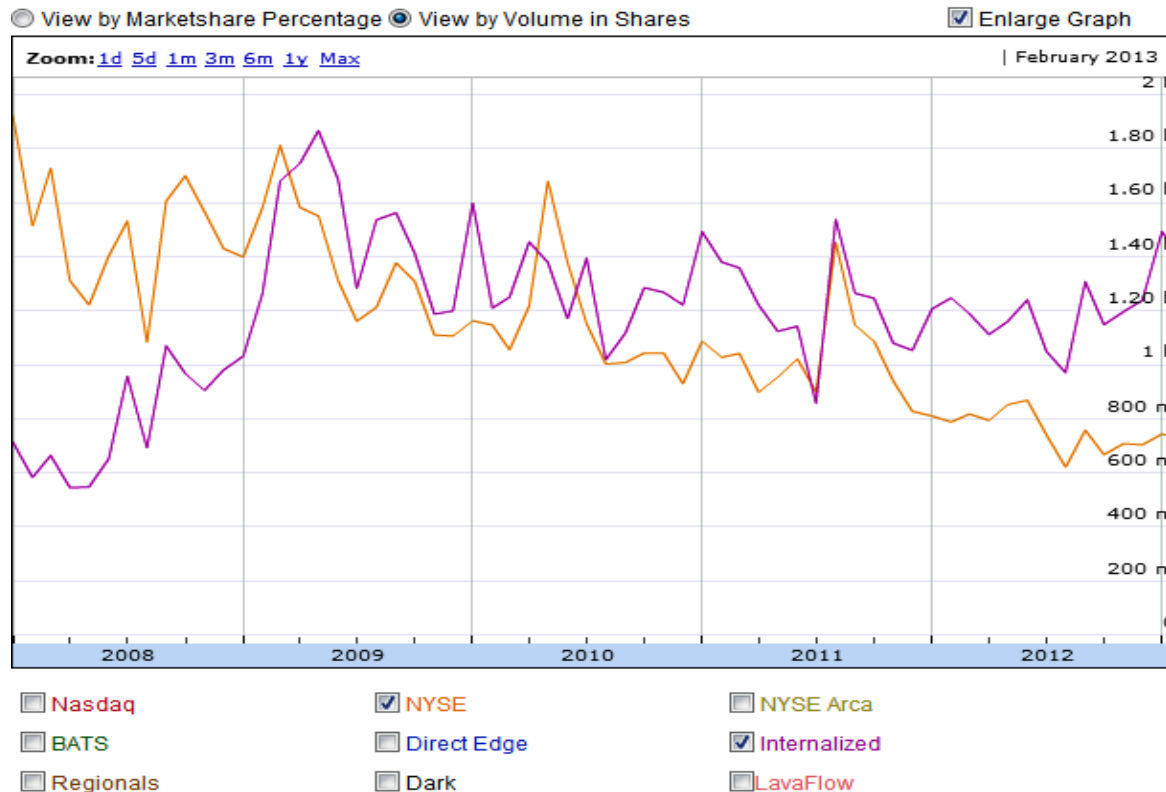


Cornerstone™
Global Group
LLC

Trend of Market Structure Change, cont'd

Equities MarketWide Statistics: as of 11 March 2013

[Equities Regionals](#) [Equities Dark Pools](#)





Cornerstone™
Global Group
LLC

Trend of Market Structure Change, cont'd

Equities MarketWide Statistics: as of 11 March 2013

[Equities Regionals](#) [Equities Dark Pools](#)

☐ View by Marketshare Percentage ☒ View by Volume in Shares

☒ Enlarge Graph

Zoom: [1d](#) [5d](#) [1m](#) [3m](#) [6m](#) [1y](#) [Max](#)

| February 2013



☐ Nasdaq

☒ NYSE

☐ NYSE Arca

☐ BATS

☐ Direct Edge

☐ Internalized

☒ Regionals

☐ Dark

☐ LavaFlow



Cornerstone[™]
Global Group
LLC

USA Equity Volume – MILLIONS OF SHARES, 3/2013

Total Exchange	4,192	64%
<u>Total Printed/TRF</u>	<u>2,386</u>	<u>36%</u>
Consolidated Volume	6,578	100% (only US listed & OTC)
Total ECN	96	4%
Total Dark	908	38%
<u>Non- Reported & Internalized</u>	<u>1,382</u>	<u>58%</u>
Total Printed/Trade Rep. Fac.	2,386	100%



Cornerstone[™]
Global Group
LLC

Why the move away from exchanges?

- Regulation/Deregulation
 - National Market System (NMS) 75; REG NMS 07
 - Alternative Trading Systems (ATS) 05
- Technology
 - HFT, electronic mkts, intelligent algorithms
- Globalization
 - 24 hour global trading & exchange mergers



Cornerstone™
Global Group
LLC

Why the move away from exchanges?

As a result of R-T-G:

- Internalization of retail order flow
- Technology is managing order flow
- Low volume forcing traders into the Dark
- Managing costs means lowering fees pd
- Sophistication of Dark Pools & Internalization engines



Cornerstone™
Global Group
LLC

Current Challenge/Impact of the TREND

- Decreased spreads and possible savings
- Market more complex & opaque
- Potentially increased risk
- At times, impaired price discovery
- Muted capital formation
- True volume delayed or unknown



Cornerstone™
Global Group
LLC

Current Trend Near End?

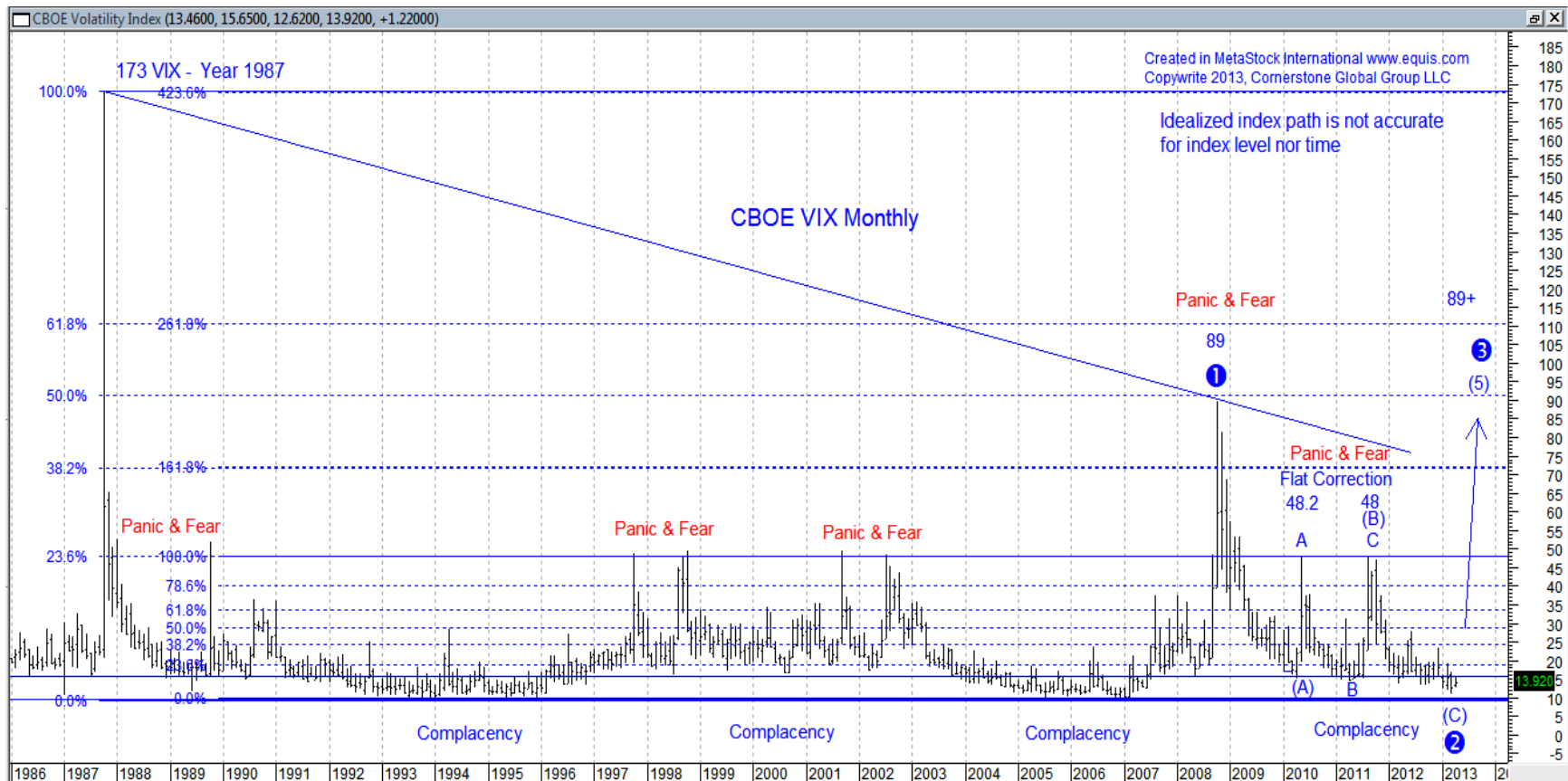
If so, opportunistic increase in mkt. share:

- Recreated exchanges more viable
- Re-Regulation to favor exchanges
- Trading venues to become more alike
- Higher volatility, an exchange driver



Cornerstone™
Global Group
LLC

Consider the potential for higher volatility





Cornerstone™
Global Group
LLC

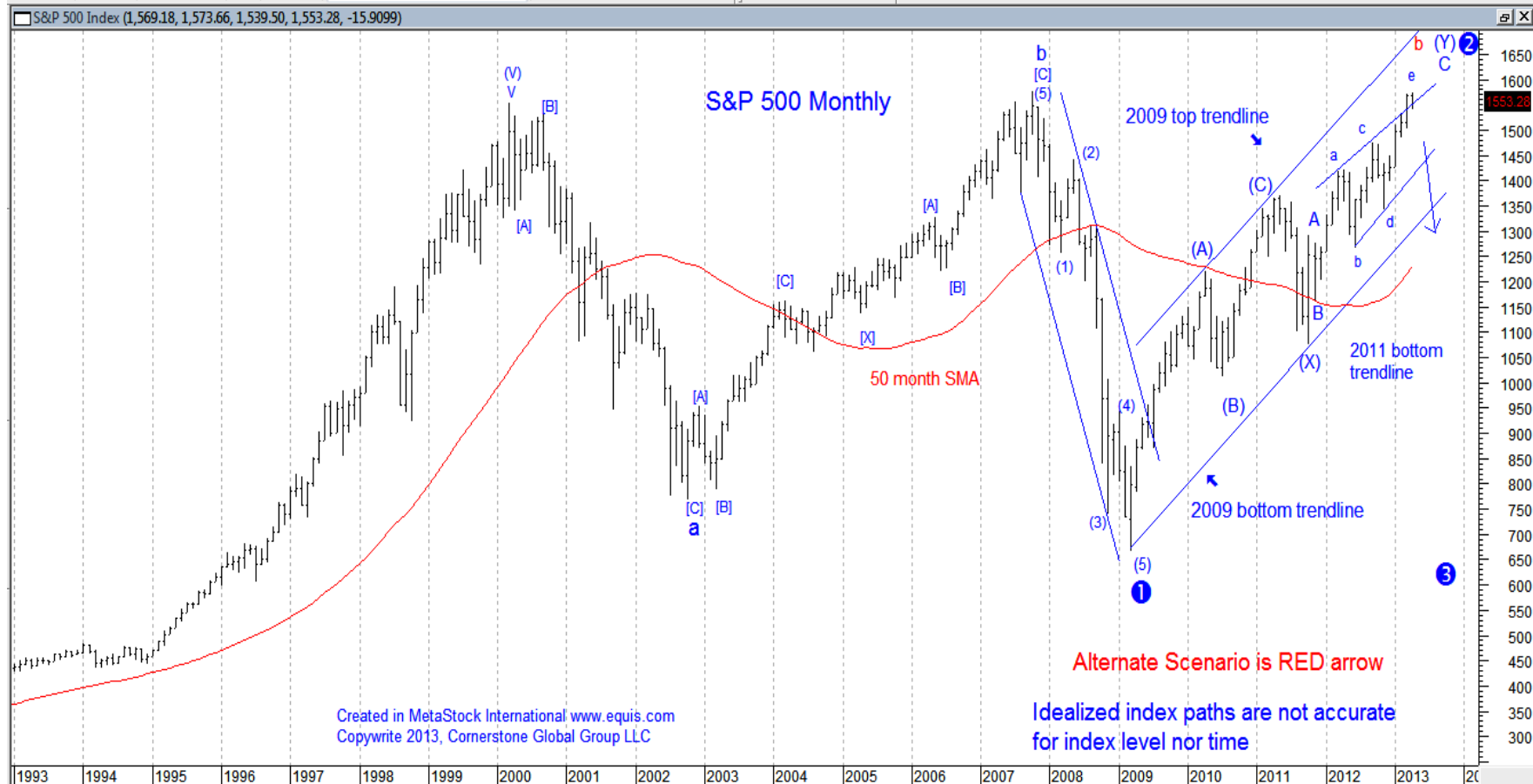
Current Trend Near End?, continued:

- Secular bear mkt. finale, exchange driver
- Increased volume an exchange driver
- Secular bull market, margin improvement
- Rise in capital formation



Cornerstone™
Global Group
LLC

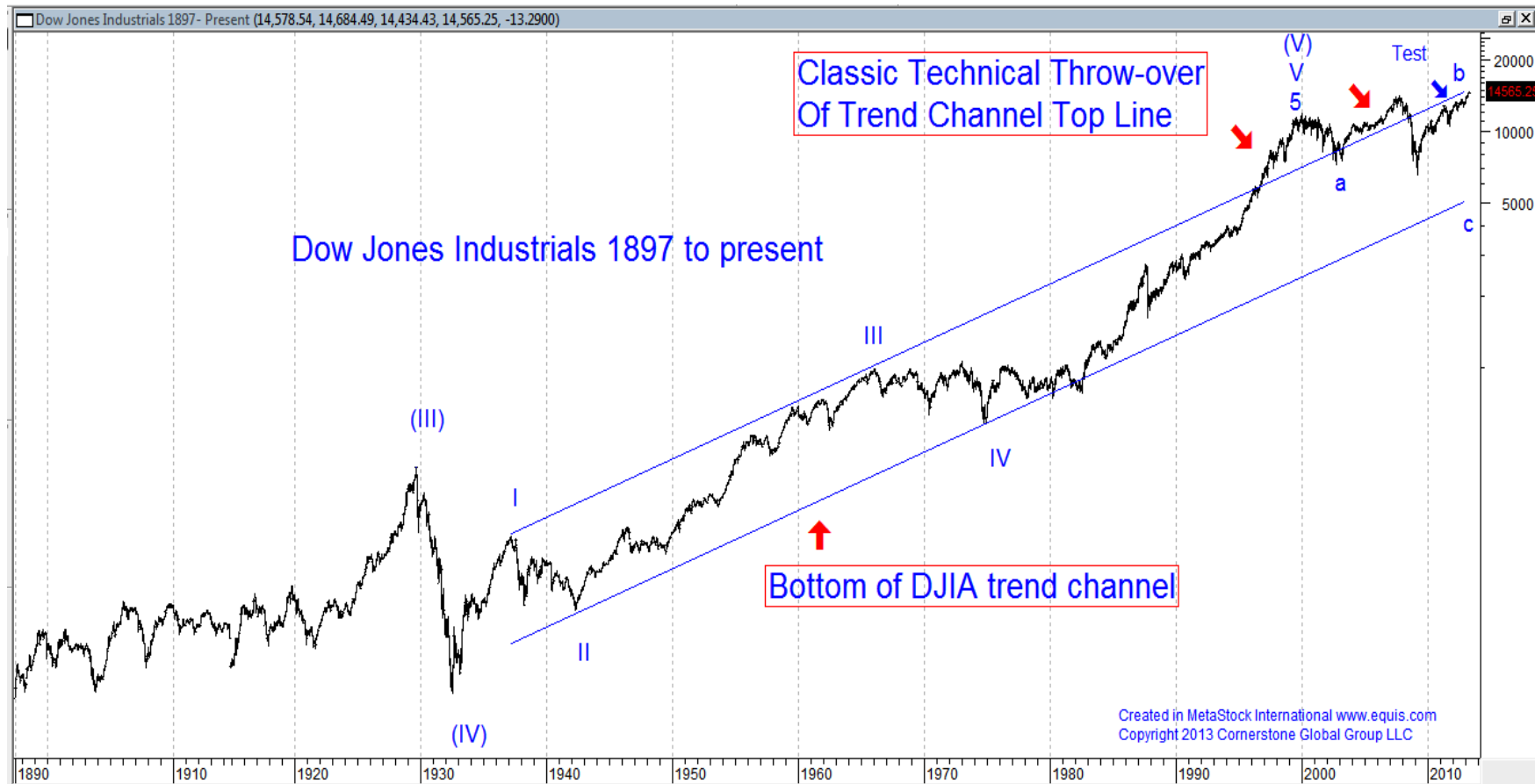
S&P 500





Cornerstone™
Global Group
LLC

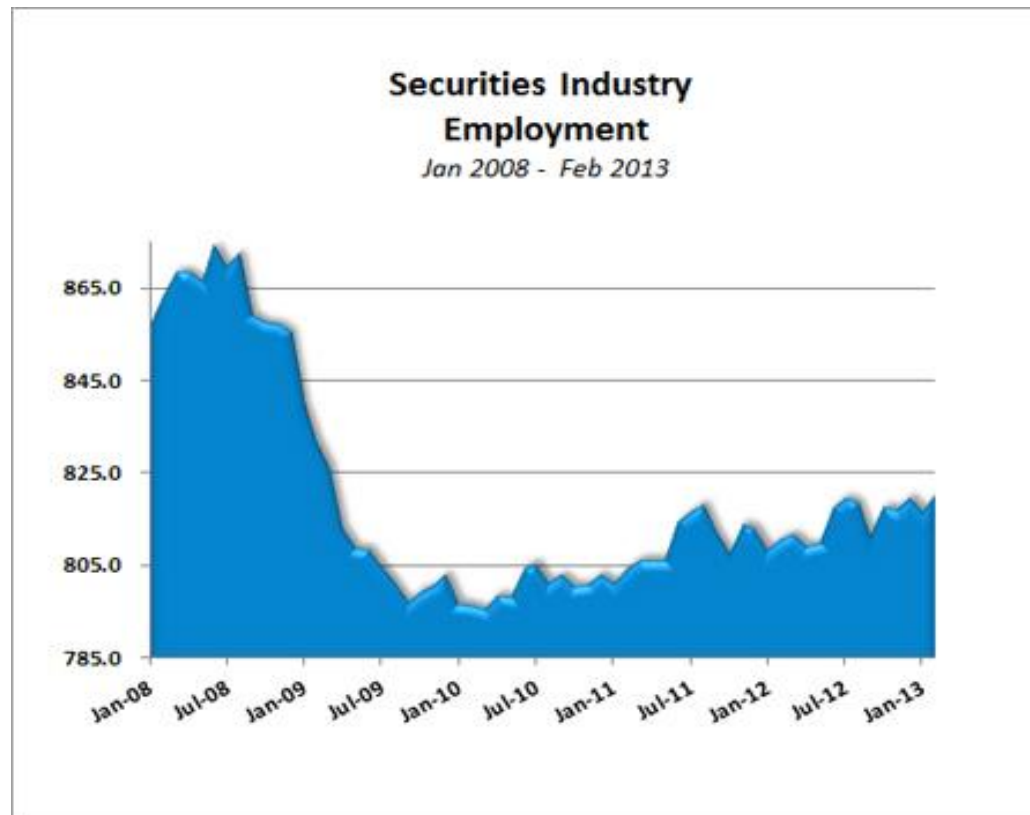
DJIA 1897 to April 2013





Cornerstone™
Global Group
LLC

USA Securities Industry Employment





Cornerstone™
Global Group
LLC

Intermarket Conclusion Continues

Probability continues to favor:

- Commodities indices lower
- US Dollar Index higher
- A USA equities top, trend to a major bottom
- US Bond yields bottom, then long upward trend
- Global economies to bottom after equities
- *If so, great boom ahead in equities & Exchanges*



Cornerstone™
Global Group
LLC

Take Away Summary

- “The trend is your friend until it ends and they all end. However, the end is but the beginning of a new trend! Opportunity Abounds!”

Anonymous



Cornerstone[™]
Global Group
LLC

A Market Analyst's View: The challenges facing traditional exchanges and the opportunities

By

Steven M. Shelton CFP®, CLU, ChFC, TEP, CIMA®, CMT

Securities and investment advice offered through Investment Planners, Inc. (Member FINRA/SIPC) and IPI Wealth Management, Inc., respectively, 226 W. Eldorado St. Decatur, IL 62522. Cornerstone Global Group LLC is not affiliated with Investment Planners, Inc. or IPI Wealth Management, Inc. Cornerstone Global Group LLC does not offer securities advice and is not a member of FINRA/SIPC. Any unauthorized copying, disclosure or distribution of the material in this communication is strictly forbidden. Cornerstone Global Group LLC does not render legal or tax advice, and the information contained in this communication should not be regarded as such. Material is only intended for use with institutional investors and not intended for use with retail investors. Copyright 2013, Cornerstone Global Group LLC
www.cornerstoneglobalgroup.com