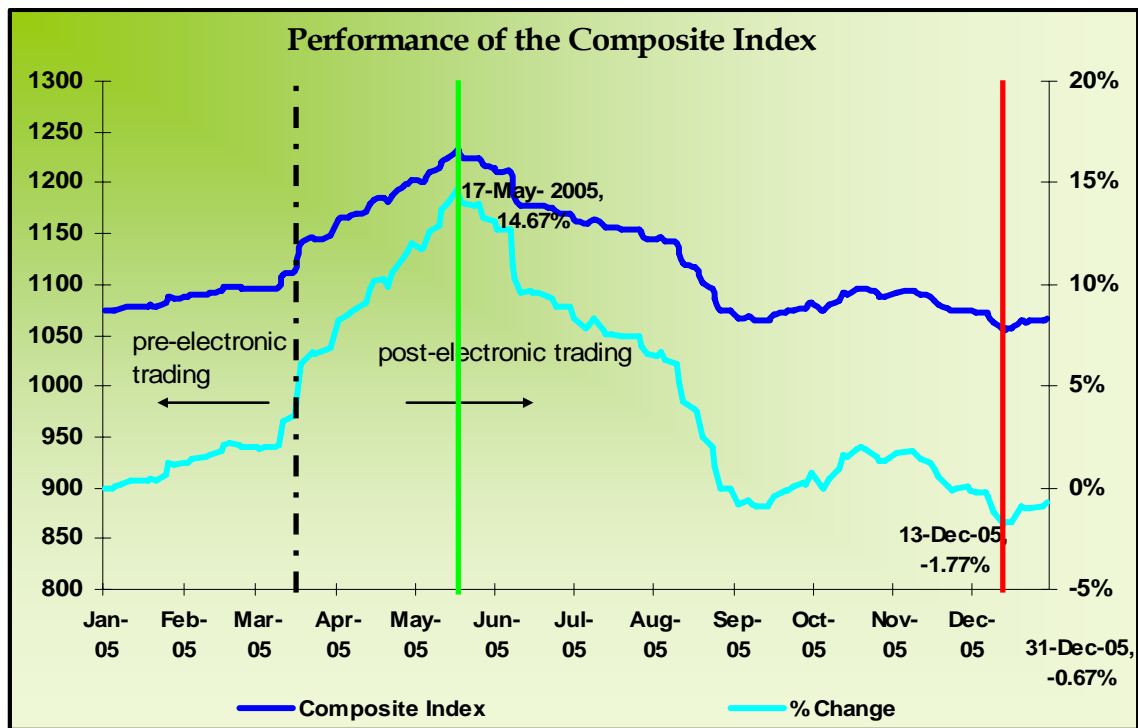


The Impact of Electronic Trading on Share Prices

As we mark the first anniversary of the introduction of electronic trading on the Trinidad and Tobago Stock Market it is only fitting that we reflect on the past year. The effects of the changeover were feverishly discussed. The market expected this change to bring about a more efficient and transparent market. This to a large extent has happened. A sure sign that the market has become more efficient is the recent change from a T+5 settlement period to the international norm of a T+3 settlement period. However investors have also had to come to grips with greater market volatility. Figure 1 shows the initial movement upwards of the Index and the inevitable decline. In the new systems share prices cannot move without trades.

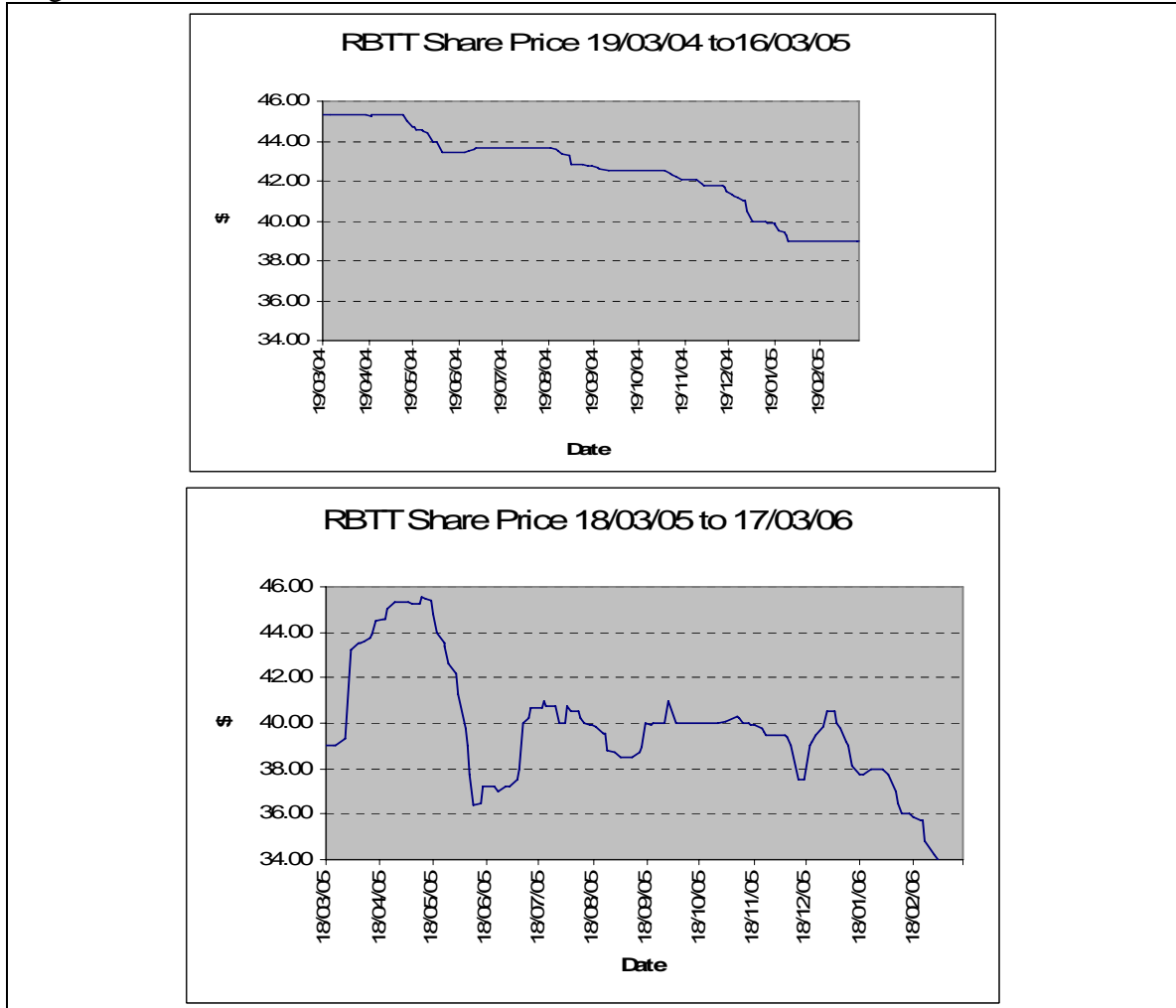
Figure 1



Though initially, the traders still conducted trades from the floor of the Stock Exchange, electronic trading eventually facilitated the movement of the traders to their respective brokerage houses where they trade via a computer terminal. Market forces of demand and supply are quicker reflected in the price of the share.

This week's article seeks to explore the impact of electronic trading on the share prices of the listed companies. We choose a group of companies which we believe would give a fair indication of the effects of electronic trading. Also readers must understand that the emergence of electronic trading is not the only reason for the current market volatility. There are other compelling reasons including the lack of institutional buying power and investor confidence.

Figure 2



The first graph of Figure 2 illustrates that the year prior to electronic trading; the movement of RBTT's share price was much less erratic compared to after electronic trading. RBTT, being a very liquid share, is one that can easily react to the demand and supply of the market because it is regularly traded. Post electronic trading, RBTT has had a busy year in terms of its performance and the release of news affecting its bottom line resulting in intensified rates of advances and declines. These reactions are clearly seen in the second graph.

Figure 3

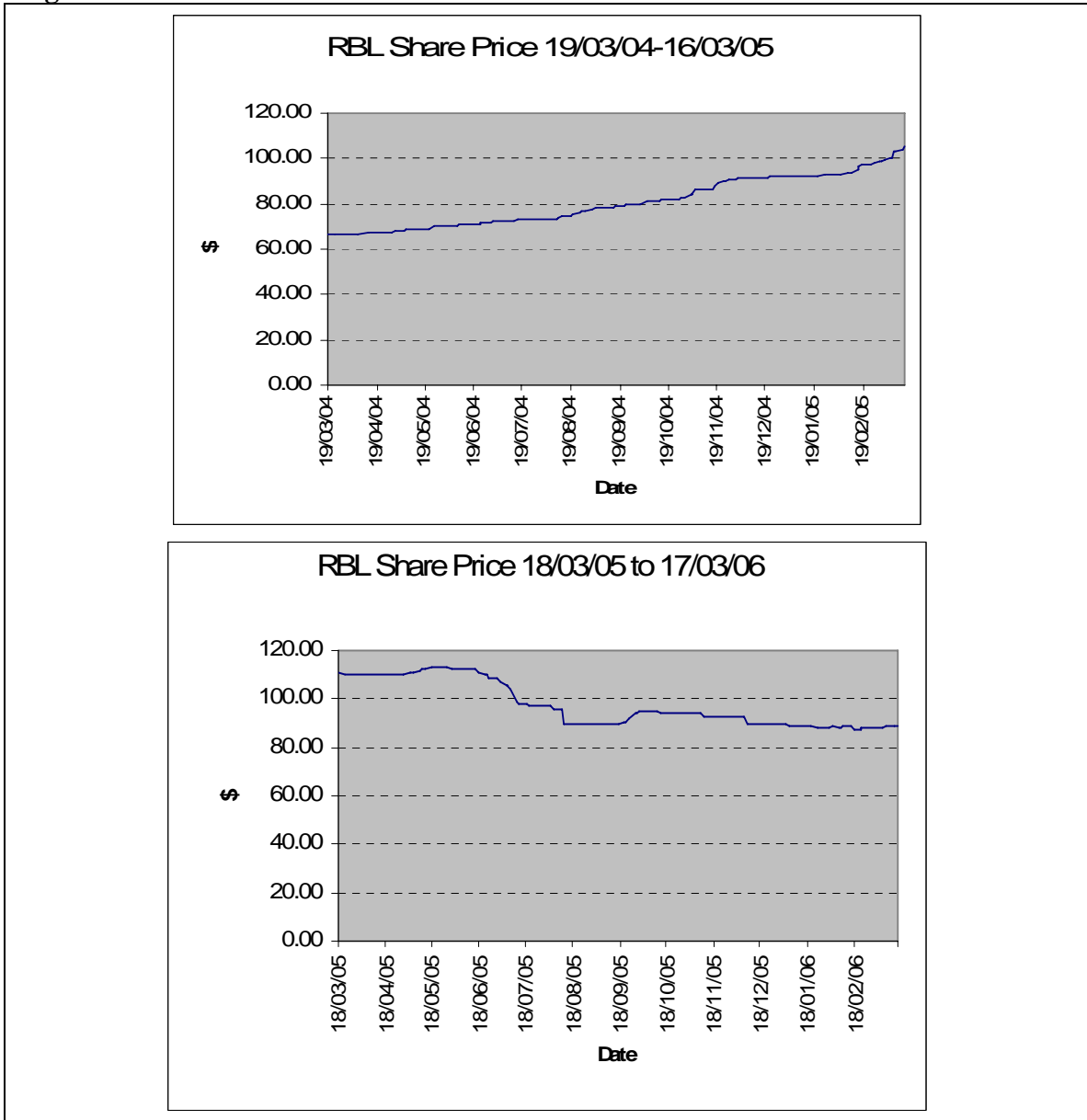
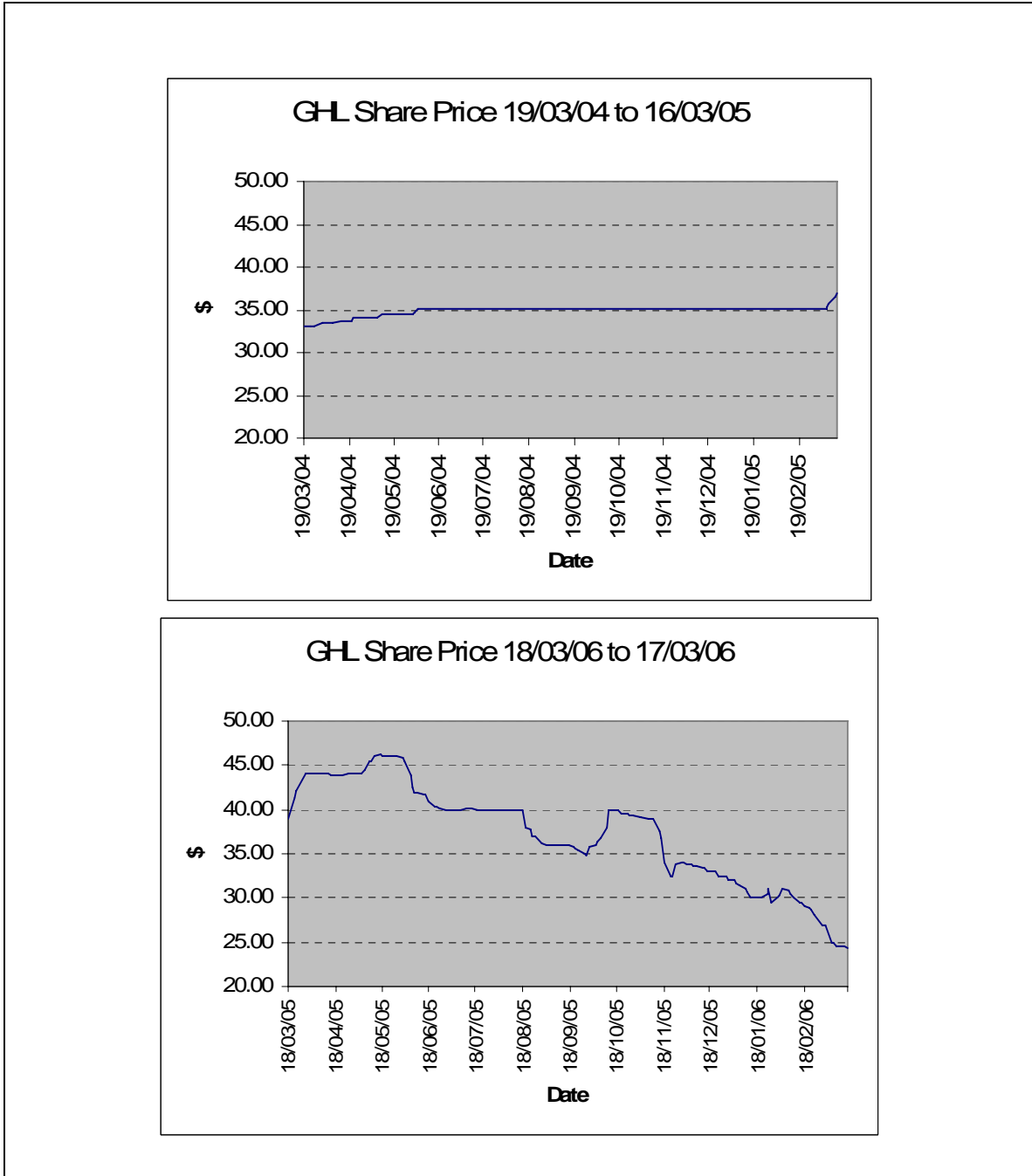


Figure 3 illustrates the price movement of Republic Bank Limited, another share found under the banking sector. The first graph in the Figure shows the price movement of Republic at a time when Republic was in extremely high demand. In addition, due to the illiquidity of the share, the waiting period could have been as long as six months if you were interested in purchasing the share. Yet there was no sudden sharp upward movement in the price. Electronic trading has however quickened its rise to its peak and then brought the share price down from its peak at which it was trading to trade at a lower and probably more realistic price.

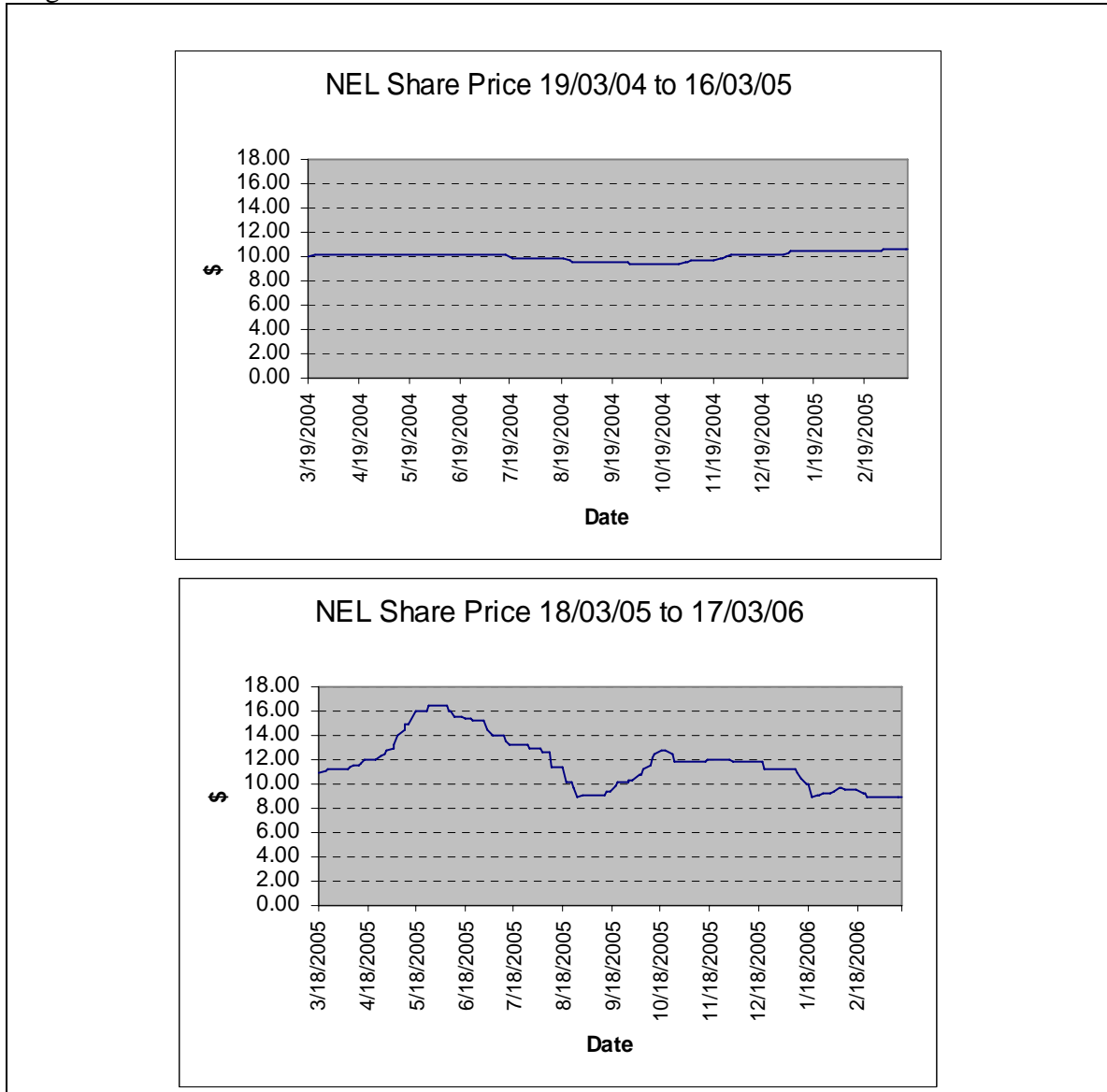
Figure 4



Guardian Holdings Limited (GHL) (Non-Banking/Finance Sector) showed a basically flat price while the price of RBTT was falling (See Figure 3). That period also had a similar situation to one that is unfolding now. Core operations were doing well while share of profits of associated companies was declining. During that period the Group also had to withstand a \$147 million provision for hurricane losses. A similar situation is prevailing now. The price of RBTT is falling impacting negatively on GHL's investment

portfolio. However, instead of trading flat or in incremental steps as it would have probably done before electronic trading, the Company's share price has indeed been subject to fluctuations as the anticipated reaction of the results negatively affected the demand for the share sending down the price.

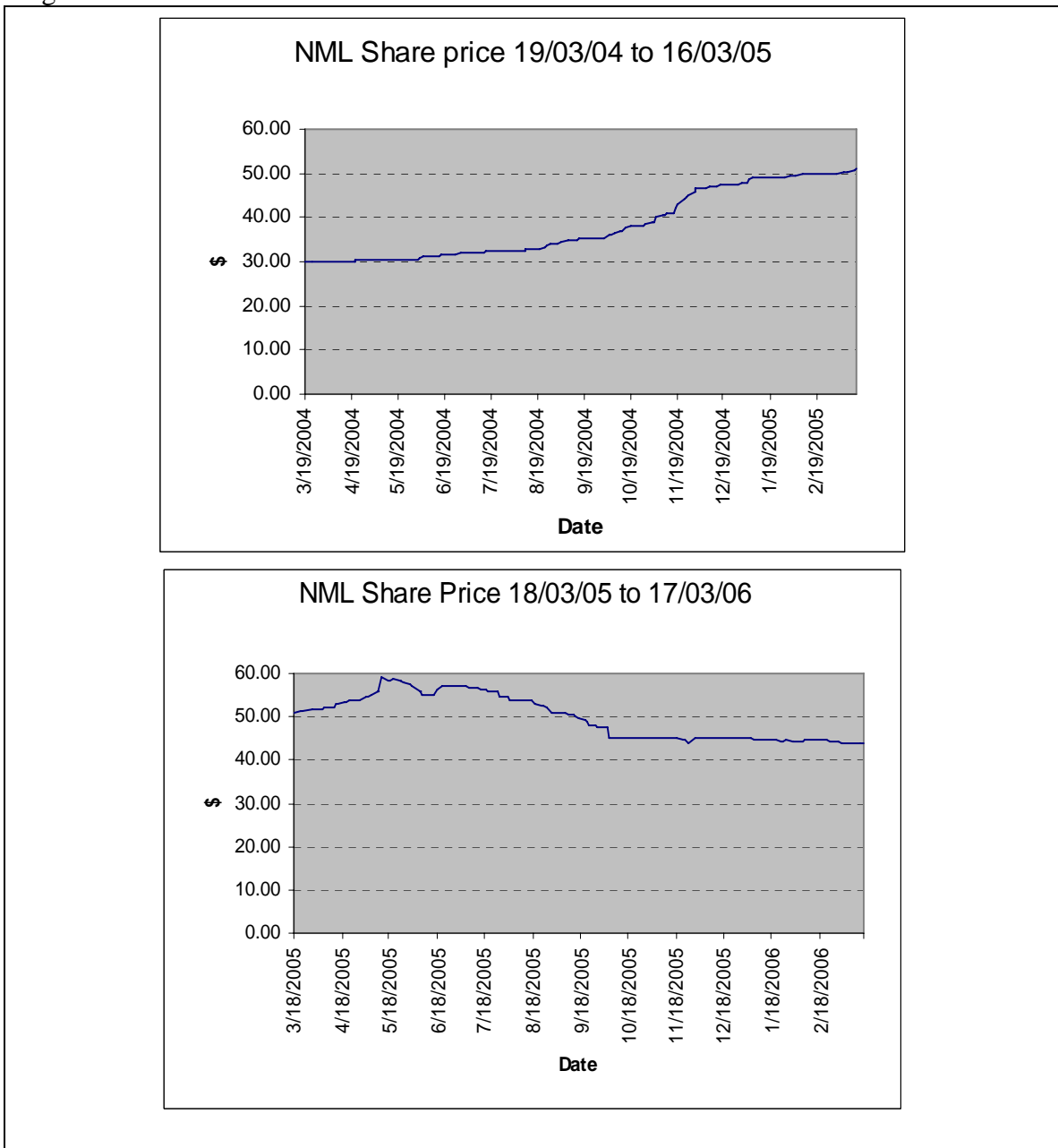
Figure 5



Prior to electronic trading, the price of NEL showed very sluggish movement (Figure 5). NEL's year end for March 2004 was successful due to the fact Tringen prospered from a strong rebound in ammonia prices. At the time the share was trading around a price/earnings ratio of 12.53 which made it a little expensive. However, there were not fluctuations in the price. Subsequent to March 18, 2005 however the fate of the share price of the Company shows a different story.

NEL's release of its year end results for the year ended March 31, 2005 reported the highest total income since the share has been listed. Buoyant energy prices positively impacted the Group thus we saw a sharp rise in the price. When rumors surrounding the competition that TSTT may face came onto the market demand declined. However, delay in the entrance of the competition resulted in clients again investing in the share which translated into a rising share price.

Figure 7



Neal & Massy's (NML)'s share price also witnessed some variations after the onset of electronic trading showing sudden peaks and declines. (Figure 7) The share was thought to be over valued approaching \$60.00, in addition, news of the Company's unsuccessful

bid for BPTT's Teak, Poui and Samaan Fields was quickly reflected in the downward turn of the price.

It is without a doubt that electronic trading has had a great impact on the prices of shares. The period before electronic trading saw a time when a number of shares were in heavy demand but the full extent of this was not being reflected in the market. However, after electronic trading and the peak of the market on May 17, 2005, the changing conditions have brought the full brunt of the supply which has easily translated into the market creating very soft market conditions. The timeliness in which the demand and supply forces find its way into the share price are much more accentuated now than before resulting in sharper rises and declines of share prices. In addition we are no longer seeing lengthy periods of steady advances or declines. The graphs demonstrate that much more volatility has surfed its way into the market making it more efficient than it was previously was. This is a good sign of a healthy market as it is able to successfully react to any news surrounding Companies and so show a more realistic price to the valued shareholders of the respective Companies.