



## An Agency Trader Reflects on Panic Selling

By Ivy Schmerken

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With the stock market falling 600 points on the open this morning after yesterday's huge loss, this is definitely taking a toll on everyone especially traders who are on the front lines. I picked up the phone and called back Joe Saluzzi, a sales trader at Themis Trading, an institutional agency-only broker in Chatham, New Jersey. I spoke with Saluzzi yesterday right after the close when the Dow had plunged 679 points or 7.3 percent to finish at 8579.19.

"There were no buyers," said Saluzzi, noting that the market lost 300 point in the last hour of trading as General Motors dropped 31 percent on news that Standard & Poor's was possibly cutting its bond rating and so the stock closed at \$4.76. Meanwhile, the financial sector lost 10 percent and Morgan Stanley fell nearly 26 percent to close at \$12.85. [Morgan Stanley was trading at \$7.58, down 39 percent as of 1:01 pm at the NYSE].

"The last hour was panic," said Saluzzi yesterday. "They just couldn't sell them fast enough. Just constant selling; it was vicious," says Saluzzi. "This was the worst one so far," says Saluzzi.

As for why the Dow would open today down 600 points, then bounce back and fall 300 points again by 11:20 am, Saluzzi said the market is trading on "headline" news. For instance, there was an auction for holders of Lehman Brothers credit default swaps today. The preliminary results for the recovery price is 9.75 cents on the dollar for Lehman bonds, which is below estimates of 10-to-12 cents, noted Saluzzio. [This means sellers of the credit default protection on bankrupt Lehman will have to pay \$90.25cents on the dollar, according to Bloomberg News. Final results of the auction are to be announced at 2:00 pm by CreditFixings, a Web site operated by Markit and Creditex, the auction administrators.]

"The stock market is not a good indicator. It's very irrational. People just getting margin calls and tossing stuff out," he said. "The stock market is irrational and what's rational are the credit markets," he said.

Despite passage of the Treasury's \$700 billion bailout bill to buy troubled mortgage backed securities assets and concerted action by the U.S. and central banks to lower interest rates by half a point this week, nothing has worked so far and the credit freeze on short-term lending is causing fears that that the U.S. economy will slip into a long recession. "Everyone wants to see the credit markets freeing up," said Saluzzi. "The

equity markets are the tail wagging the dog,” said Saluzzi who trades via an EMS from Lava. “They need a reason to rally,” he added. Unlike the old days, no one was making markets or preventing order imbalances, he observed.

“In times like this, you would love to have a specialist on the floor,” said Saluzzi, who suggests the volatility is worse with electronic trading. “No one is standing there making a market anymore,” says Saluzzi. “We got what we wished for,” says Saluzzi, who works the electronic machines, dark pools and ECNs, as an agency only broker, seeking best execution for institutional clients.

“I think part of it is the volatility because we are all electronic now “No one is standing there making a market anymore,” says Saluzzi. The volatility is worse with electronic trading, said Saluzzi. [Today, the CBOE’s VIX was up to 70, whereas in the past 30 was thought to be high.] “In times like this, you would love to have a specialist on the floor,” said Saluzzi. “We got what we wished for,” says Saluzzi, who works the electronic machines, dark pools and ECNs, as an agency only broker, seeking best execution for institutional clients.

Though Saluzzi, who was one of the “electronic guys “at Instinet during the nineties,” used to be against the NYSE because “the specialist would kind of clog things up and they did take their piece of the pie there.”

But, “there’s no one standing there asking 'what is the market.' They used to announce the trade and announce a big block, they would slow things down, which is good in a market like this,” he said.

Since the specialists’ influence has waned, there’s more volume in listed stocks than in Nasdaq stocks, observed Saluzzi on Thursday. “There’s more money to be made for the fast money — the Getcos and other automated market-making firms,” he said. “The listed world is more open to those types of traders and it’s based on the volume.” For instance, yesterday, 8.1 billion shares changed hands in listed stocks, but of that, 2 billion was traded on the NYSE. Whereas 3 billion shares were traded in all Nasdaq-listed stocks – which means the listed volume was 2.5 times the Nasdaq share volume, he said.

As I update this piece, the Dow is already down, 390.68 to 8188.51, which is better than an hour ago, when it was down 531.21 points or 6.3 percent to 8037.98. Jefferies & Co. managing director Art Hogan, told CNBC that after all the carnage, today is the day the market will hit bottom. Let's hope he's right!