

What are the true New York Stock Exchange closing prices for its listed stocks? Technically, the answer has always been the price at the 4 p.m. closing bell. But with the advent of after-hours trading and the consolidated tape's extended reporting hours, issuers and investors began finding themselves without a clear-cut way to determine true closing prices.

Confusion over closing prices led to an increasingly common problem. Take the example NYSE Chairman and CEO Richard A. Grasso cites in his April 6, 2000 letter to the Securities and Exchange Commission (SEC). At 4 p.m. on Feb. 24, 2000, **Wal-Mart Stores Inc. (WMT)** closed at 44 ³/₈ on the NYSE, after trading more than 19 million shares that day. Then at 6:10 p.m., 100 shares traded in the after-hours market at 46, up 1 ⁵/₈ from the previous trade. A little later, WMT traded up another point on just 200 shares to 47. The last recorded trade, for 100 shares, was at 47 ⁷/₈, up 3 ¹/₂ from the NYSE close. The next morning, WMT opened on the NYSE at 44 ⁵/₁₆, down only one sixteenth from the previous day's NYSE close, but down 3 ⁹/₁₆ from the last reported trade carried on the tape the day before.

While the after-hours market might be convenient for some investors, the letter noted, those who had bought the 400 shares of WMT after hours that day paid over \$1,000 more in aggregate than they would have paid had they bought at the NYSE close or at the next day's opening. Moreover, these late trades had caused Wal-Mart's market capitalization to inflate by \$15.5 billion, then to deflate by almost the same amount the following morning.

This was hardly the only example of such significant price distortions. Grasso, along with other Exchange officials, had heard many such complaints from **ExxonMobil Corp. (XOM)**, **General Electric Co. (GE)**, **Honeywell International Inc. (HON)** and **The Walt Disney Co. (DIS)**, among others, before writing his much-publicized letter to the SEC.

"When a price appears to have fallen \$2 overnight, it's cause for alarm," says Peter Townsend, ExxonMobil's corporate secretary and vice president of investor relations. "We have about 3.5 billion shares outstanding," he notes. "Even if our stock price moves down only half a point, our market cap dives \$1.7 billion. And sometimes a single trade after hours can move the price down a whole dollar. Then we would get a rash of calls from investors wondering if ExxonMobil has had an overnight calamity."

Logical Solutions

To give investors greater market transparency and a reliable source of pricing information, the NYSE last April began posting closing prices for listed stocks on its Website (nyse.com), in addition to the consolidated closing prices (which include trades executed on other markets after the NYSE close) already being posted. Although this remedied some of the confusion, the postings did not put an end to the multiple closing prices that were appearing in the stock tables of widely read newspapers.

A more recent solution to the problem was introduced in October. The SEC asked all

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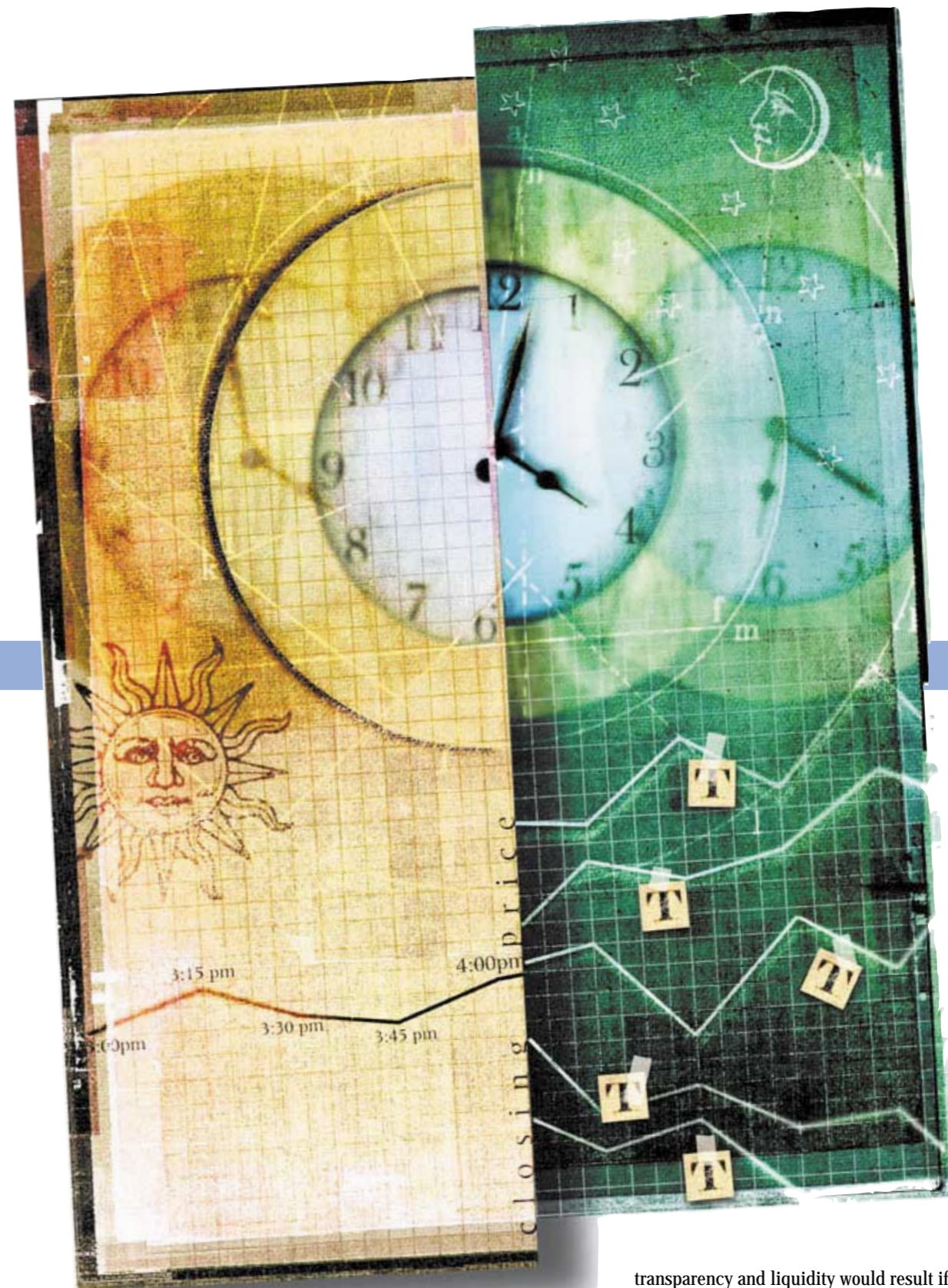
BY KATHRYN SOLLMAN ILLUSTRATION BY TERRY MIURA

U.S. exchanges and markets trading NYSE-listed stocks to adopt a "T" indicator for after-hours trades. This tagging system puts an identifier on trades of NYSE-listed stocks that take place on other markets after 4 p.m. and thus prevents them from being included in the day's final high and low calculations. This makes it less likely that the data vendors taking market snapshots at, say, 4:15, 4:30 and 6:30 p.m. will report different NYSE closing prices for a particular stock. After-hours trades are still included in volume totals, but they can no longer skew the regular-hours closing prices. The NYSE worked closely with the Consolidated Tape Association and the SEC to develop this solution.

"Fair and accurate pricing information is vital to informed investment decisions," says Grasso. "The 'T' indicator draws a bright line between trades executed within our highly liquid pricing mechanism and the small, atypical trades that can occur after hours and appear to change an issuer's market capitalization by billions of dollars on volume of as little as 100 shares."

Warning for After-Hours Investors

The "T" condition does not reduce the dangers of trading in the after-hours market, however, nor was it intended to. Hazards include the absence of specialists maintaining a fair and orderly market, limited stock selection, a highly illiquid market with volatile prices and, most important, inefficient pricing that can cost investors dearly.



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—RICHARD A. GRASSO

should be an 'X' flagging off-hours trades," warns ExxonMobil's Townsend. "The hope is that [investors] will act intelligently and wait until the morning to execute more rational trades."

Damian Maroun, senior vice president and head of equity trading at GE Asset Management, calls the "T" indicator "a great short-term solution. But should after-hours volume increase, it will be more of a technology issue than a tagging issue; eventually there will need to be greater connectivity and transparency."

Some observers suggest that greater transparency and liquidity would result if the NYSE extended its own trading day. No plans to do so are currently under way, although the Exchange has not ruled out this prospect entirely. "For the Exchange to put its brand on either an after-hours or a pre-opening market right now runs a huge risk of investor confusion and disappointment," says Grasso. "The public would expect the same high-quality market at 5:30 p.m. that they get at, say 10:30 a.m., and right now we don't see that being the case."

Should after-hours trading volume increase sharply, however, the Exchange would respond. "When customers indicate that there will be sufficient liquidity," Grasso declares, "then clearly we will stretch the trading day." Until then, the NYSE remains committed to educating investors on the dangers of the after-hours market and hopes investors will exercise great caution when trading after the major markets have closed. □

Another word of caution: When investors look up via their data vendors or information providers the last-sale report for a stock, after-hours trades flagged with the "T" condition code are not visible. Instead, investors see only the last sale that occurred without the condition (which should be the NYSE closing price). This means that investors might not be getting the entire picture of a stock's after-hours market.

To understand the entire picture, investors must be able to view crucial time-and-sales reports, which not all data vendors and information providers make available. "Instead of a 'T,' there

See nyse.com for more information.