Bats Global Markets
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Dear Bats Customers and Members of the Trading Community,

I am proud to deliver the first newsletter with Bats as a publicly traded company listed on the Bats Exchange. While the IPO was a satisfying achievement for us, we owe many thanks to those who helped us along the way. In particular, I thank our customers, issuers and other members of the trading community. We sincerely appreciate your encouragement to keep moving forward, and we also thank our supportive investors, both new and old, for placing their trust in us.

Most importantly, I thank my fellow associates for their hard work and dedication in building this company, turning Bats from an idea into a multibillion-dollar financial services leader in the span of a decade.

While I am excited about - and grateful for - our public company status, I see it as just one step in the evolution of Bats. There is still much to do and many markets to make better. As CEO, I will ensure that our public company status does not distract us as we continue serving our longstanding corporate purpose: to repair market inefficiencies around the world.

My goal of this occasional newsletter is: (1) to inform the global trading community of issues and trends that I see; (2) to offer my opinions on certain topics, and (3) to (hopefully) make you laugh from time to time.

In this issue, we'll discuss:

- **U.S. Equities: Where have all the volumes gone?**
- **ETFs: The coming Global Tidal Wave of Capital**
- **Miscellaneous Market Structure Thoughts**

U.S. Equities: Where have all the volumes gone?

Television pundits and other experts recently have referred to trading in the U.S. equity market as "weak," "depressed" or even worse. A headline in a major national newspaper last month asked "If No One's Trading Stocks, Is it Really a Rally?" The ensuing article noted that "…few investors have come to the party," citing recent average daily volume of 6.9 billion shares a day.

The real story is that the average daily *SHARE* volume for the 12 months ended April 30, 2016, is down about 9% from the same period four years ago, averaging about 6.7 billion shares per day (excluding auctions and odd lots). However, average notional volume — the actual dollar amount that is traded each day — rose 15% during that same period to more than $283 billion. Simply put: the share liquidity in our market is down while the notional turnover is up. Even more startling, when comparing January 2016 to January 2010, share volume increased only 1.92% while notional volume rose 42%.

What is causing this phenomenon and how is it impacting our market liquidity and, ultimately, investors? One contributing factor, certainly, is the refusal of corporate issuers to split their stocks, particularly since the end of the financial crisis. In an ill-conceived effort to attract "long-term investors" and detract "speculators" from trading in their stocks, a number of popular U.S. companies have kept their nominal stock prices above $200, $500, or even $1,000 per share. While intended to attract buy-and-hold investors, these higher nominal stock prices can actually negatively impact liquidity, trading costs, and investor participation, affecting returns and the value of equity holdings for investors both large and small.

As everyone reading this newsletter certainly knows, splitting a stock does not directly change a company's value or the overall value of an investor's holdings in a company. Yet, historically, psychology has played a role in determining optimal prices at which to buy stocks, especially for retail investors. For example, an average individual investor may avoid a $500 stock as being too richly priced but change his or her view when that security is split 10-for-1 and then trades at $50. Currently, there are 44 U.S. corporate securities trading above $200, including high-flying titans such as Amazon ($708 as of this morning) and Google ($725). Further, the current average stock price for the S&P 500 is $83.87, a stark contrast to the average of $30–$50 from 1980–2011.

In addition, there are some structural issues resulting from ultra-high-priced stocks that have been largely ignored. For one, these securities increase the cost of execution for both large and small investors by widening bid-offer spreads. As you can see in the chart below, of the top 10 U.S. stocks by market capitalization, spreads can be as much as five times greater on a percent basis than their lower-priced counterparts. This leads to much higher costs for both large and small investors. These costs, which explode for large investors, lead to lower participation from retail investors, market makers, and other market participants, all of whom must commit more capital simply to trade a single round lot of stock, thus, contributing to a wider spread and less liquidity.

Symbol	Price	Average Quoted Spread in Basis Points
AAPL	95.22	1.13
GOOGL	721.71	6.65
GOOG	709.74	5.73
MSFT	50.62	1.98
XOM	89.74	1.27
BRK/B	141.83	1.70
FB	117.35	1.06
AMZN	702.80	5.68
JNJ	112.64	1.07
GE	29.56	3.38

Source: Bloomberg, as of 5/23/2016

While it is true that *per share commissions* for institutional investors will rise if these higher-priced stocks split, I believe the increase in explicit costs will be far outweighed by the savings from the lower implicit costs of tighter spreads and lower market impact. In fact, a recent study from Instinet explored some of the challenges of trading very high-priced stocks, highlighting declines in both the depth and duration of the quote in addition to the wider spread costs.

What about the “buy and hold” argument? While it’s nice for a company to say it wants to attract “long-term buy-and-hold investors,” the fact is that failing to split a high-priced stock encourages small investors to avoid a stock altogether or causes them to pay a substantial penalty when they enter and exit investments in such a security (and, yes, small investors sometimes have to sell stocks to pay for college or buy a new car). One could argue that a company’s refusal to split its stock is a refusal to embrace middle class investors with less investable wealth.

If just half of the companies with stock prices exceeding $200 were to split, small and large investors would immediately experience a savings from the smaller spreads and higher liquidity, and there is also a chance that more middle class investors could participate in the investment opportunity some of these companies present. Even the Intercontinental Exchange, Inc. (ICE), the owner of the NYSE, which trades close to $270 per share, could offer a stock split to send a signal to corporate America.

So while we are debating about pilots with the goal of making stocks trade better, can we focus on the instantaneous benefits of stock splits? While this is clearly self-serving to a degree, given our per share revenue model, the evidence is clear to me that all investors would save money.

ETFs: The Coming Global Tidal Wave of Capital

In my inaugural newsletter in April 2015, I wrote of our big ambitions for ETFs with plans to become the #1 ETF listing exchange in three to five years, an aspiration supported by our continued position as the world’s #1 market for the trading of ETFs. One year later, I’m pleased to say that my belief in, and expectations for, the ETF asset class continue to grow.

Globally, listed ETFs reached a record $2.7 trillion in capital at the end of 2015 and, according to data from Blackrock, the assets under management of global exchange-traded products will grow 17% annually through 2019. It is now my strong belief that global ETF assets, including actively managed ETFs, will grow to more than $15 trillion in capital during the next 10 years as ETFs become the preferred “wrapper” for both passively and actively managed portfolio investment vehicles.

Most importantly, ETFs will become a bridge to new investors, investors that our financial markets have been unable to reach. Millennials — those 20–35 year olds — are the largest generation in U.S. history, approximately 92 million people. And they are the first generation entering the investment arena through the ease of ETF investing. In fact, according to Bloomberg, 40% of U.S. Millennials own ETFs. Forty percent!

If the financial services industry can encourage early investing through the use of efficient investment products and simplified investment offerings, we will impact the future wealth of millions of Americans — make that 92 million. Think of it this way: if Millennials could invest $0.99 every time they bought an app or played Candy Crush on their phones, we would never need to reform Social Security. It is my belief that Millennials of today and the future will buy ETFs from their phones for years to come. The investment success of these millions of investors is just waiting for the government’s approval of certain actively managed ETF portfolios.

Miscellaneous Market Structure Thoughts:

Rather than offer a detailed market structure discussion, I'll give you short phrases/thoughts on certain topics:

1. Tick Pilot — While the Tick Pilot itself was a reasonable idea, it is introducing substantial cost, work and complexity to our market. The addition of Trade-At, which will test whether more orders go to exchanges when you require them to, was a costly mistake.

2. CAT — The CAT Plan is out for comment, and the estimated costs are eye-popping. The industry needs to assess whether the benefits are commensurate with the cost, because ultimately the costs will be passed through to investors similar to the way that Section 31 fees are today.

3. Access Fee Pilot — My exchange friends shouldn't be so afraid. I promise it will be OK without "Trade-At."

4. Market Liquidity (in all assets) — We need to come to terms with it — it's gone; never to return (excluding stock splits of course).

5. Active, Non-Transparent ETFs — Anything "Non-Transparent" sounds bad. I would have thought we would have learned our lesson when we named "dark pools." No wonder the SEC is slow to approve them. The irony is that Active ETFs are more transparent than corporate securities. I predict that these products, which successfully trade in Europe, will be successfully listed and traded in the U.S. in the near future.

6. Stock Manipulators accessing our markets from abroad — Expect more policing than ever before! More to come…

Thank you for reading, and I look forward to speaking with you soon.

Sincerely,
Chris Concannon
CEO
Bats Global Markets