

Lecture 2

RELATIONSHIP MANAGER – Chapter 6

Definition: This person is responsible for establishing a relationship, maintaining it and deepening it. A good relationship manager builds so much customer loyalty that the client always gives him the first shot at any new business--and, all else being close to equal, will ultimately award the new business to him because of that longstanding relationship.

Client Demands: Consistency, Speed & Ideas (products)

Functions of Relationship manager - Front Office:

- **Corporate Finance** - Raising Capital / Capital markets, primary market Underwriting / Issuance of Securities
- **Sales and Trading** /Capital Markets, secondary market / market maker / derivatives
- **Advisory Services / Research**

MARKETING CONCEPTS:

- **Like a Salesman** A relationship manager's primary job is to sell. The difference between a run-of-the-mill salesman and a relationship manager is the **length of the sales cycle** and the ongoing nature of the relationship. Whereas a salesman looks to meet an immediate need, a relationship manager looks to meet the immediate and long-term needs of a client.
- **Providing Solutions** A relationship manager has to be knowledgeable and present himself as a person who can provide solutions. Anyone can sell a television or a car, but it requires a relationship manager to solve the complex and varied needs of clients who are planning for retirement, trying to manage their wealth or exploring options to sell their business. Due to the long-term nature of his needs, a client must be able to trust that his relationship manager will always be there to take care of him and help him through any changes.

- **Equal Partners:** There are no formal qualifications for a relationship manager. All that is required is the ability to establish trust, a good rapport, and the ability to understand a client's needs and provide solutions. Although no formal qualifications are required, specific industry knowledge or experience is often necessary to successfully understand a client's needs and provide a fully customized solution.

Trading and Capital markets Activities – Chapter 7

SECONDARY MARKETS

Types of Orders:

- **Market Orders**
 - A market order is an order to buy or sell at the prevailing market price. (note: “not help market order” – discretion of the broker to execute)
- **Limit Order**
 - A limit order is an order to buy or sell at a specific price or better
- **Stop Order (a/k Stop Loss Order)**
 - A stop order is resting order to buy or sell that is activated when the stock trades at or through the stop price. Once triggered automatically on “the book” the orders become market order. The stop order takes two trades to execute (Triggers and then execution price – next price)
 - This is designed to protect the profit or prevent a loss if the stock begins to move the wrong direction.
 - It's not guarantee (like the limit order has)
- **Day Order**
 - An open order that is assumed to be valid until the close of trading on the day – cancelled after the close if not filled
- **Fill-or-Kill (FOK) Orders**
 - Broker dealer requesting to fill an entire order at a limit price or better. otherwise the entire order cancels
- **Immediate-or-Cancel (IOC) Orders**
 - Like FOK except that a partial executing is acceptable.

- **Limit on Close (LOC) Orders**
 - These orders are canceled if they do not participate in the closing trade of the day.
- **Trailing Stop Order**
 - Sets stop price order at a fixed percentage or amount below the market price.

Trade Settlement: T+3 (Regular way)

Market Centers – when a member firm's customer calls a broker to place an order to buy or sell, the firm forwards the order to the market center to be executed. The following are market centers that are available for trade execution:

1. Exchange (NYSE, Nasdaq) or Floor broker
 - The firm may direct the order to that exchange or to a competing exchange.
2. Market Maker
 - A market maker is a firm that publishes quotes in a stock and stands ready to buy or sell a given number of shares on a continuous basis – **required** to publish firm quotes.
3. Internalization
 - An order may be placed to a separate division of the member firm to be filled from inventory from the firm's proprietary account rather than sending it to a market maker or market.
4. Electronic Communications Network (ECN)
 - i. Orders may also be ordered through ECN, an electronic trading system that automatically matches buy and sell orders at specific prices
 - ii. ECNs are SEC sanctioned alternative trading systems (ATS) that are open 24 hours a day and match buy and sell orders. *For years the trading needed to be done between 9.30-4pm but in the last 10 years the demand trading grew to afterhours trading (note:*

volume is low, often leading to higher volatility – care is needed)

EXCHANGE NATIONAL MARKETS

The New York Stock Exchange (NYSE)

- NYSE maintains a physical floor-based trading model.
- The NYSE trading model includes several important market participants:
 - **Designated Market Makers (DMM)** – also called specialists
 - These individuals bring order and liquidity to an exchange floor.
 - Each listed stock is assigned is assigned to a DMM
 - Stock exchanges have controls (volume and price movements), so the DMM know how much buying or selling is required, as principal, to keep the stock from running wild.
 - **Special Liquidity Provider (SLPs)**
 - Another set of individuals – electronic market maker that is permitted to compete with the DMMs.
 - The requirement is different – bid or offer (one-sided).
 - Their job is to add liquidity to the market.
 - **Floor Brokers**
 - These individuals are generally employees of the member firms that have a trading license.
 - Their primary function is to handle the order flow received from buy-side customers from the upstairs trading rooms of their employers and other member firms. (*Note: Two-Dollar Brokers are floor brokers who receive business from other floor brokers when they are too busy to handle all of their firms' orders*)

NYSE trading halts and limitations:

New Rule for market halts – New Rule 80B (April 2014):

Investment Banking

Prof. Droussiotis

Level of Market Declines	S&P from the Previous Trading Day	Halt Times
Level 1	7%	15 min
Level 2	13%	15 min
Level 3	20%	rest of the day

National Associations of Securities Dealers Automated Quotation (NASDAQ)

- In August of 2006 NASDAQ stock market began to operate as an independent national securities exchange (it used be an OTC)
- Is a screen-based, SEC registered stock exchange.
- Divided into 3 main components:
 - Global Select Market (GSM) (larger companies listed)
 - Global Market (GS)
 - Capital Market
- Minimum listing requirements (GSM, GM) (Initial: 3 Market makers / \$4, Ongoing: 2 Market Makers / \$1) – Minimum Number of shareholders owning 100 shares or more.
- Two levels of service (Level 1, 2 and 3)
 - a. Level 1: This is for Registered Reps and individuals investors (more info)
 - b. Level 2: This for OTC traders and financial institutions (firm quotes displayed:

ABCD Last \$31.10

Market Maker	Bid	Ask	Size
MLCO	31	31.12	10-12
MHMY	31.10	31.20	16-25
SALD	31.05	31.15	3-10
WEED	31	31.12	2-15

MLCO is willing to buy up to 1,000 shares at 31 and set up to 2,000 shares at 31.13. MHMY is willing to buy up to 1,600 shares at 31.10 and sell up to 2,500 shares at 31.20, and son on.

- c. Level 3: This is for Market makers – it provides the services of Level 2 plus the capability to enter the system to update quotes and/or display,

OTC MARKETS

OVER THE COUNTER BULLETIN BOARD (OTCBB)

- The OTCBB is an electronic interdealer quotation service for more than 3,300 issues that do not meet the listing requirements of stock markets such as NASDAQ or NYSE.
- At least One Market Maker per security
- Quotes (Bid/Ask) MM can be one-sided bid
- SEC require that all issuers whose securities are quoted on the Bulletin Board be current in their regulatory filings.

OVER THE COUNTER PINK MARKETPLACE

- No requirement for companies quoted in the OTC Pink
- Quotation system - Penny Stocks (less than \$5)

THE THIRD MARKETS

CONSOLIDATED QUOTATION SYSTEM (CQS)

- Quotes from both third market makers and DMMs in listed stocks

CONSOLIDATED TAPE SYSTEM (CTS)

- Reports real-time trade information on listed equity securities

NASDAQ Trading & Reporting Services

Nasdaq Level 3 Service Screen Shot

NASDAQ
GO

NASDAQ STOCK MKT INC CUSIP: 631103108 NGS Market Open

Close Data

Order Entry

Quote Mana...

Order/Ex Sc...

Time and Sa...

ACT Trade E...

ACT Trade S...

Last:	31.75	P	-0.33	12:00	Last Vol:	403,666
PCL:	32.06	H:	32.24	Low:	31.75	
NOOP:	32.07	NOCP:	Imb: 950 S Paired: 7787			

Q	11	31.75	NBBO	31.76	9	Q
DQT						
PQT						

B:	Price	Size		A:	Price	Size
▲		▼	▼	▲		▼
		0.01	▲			▼

NSDQ	11	31.75	▲	31.76	9	NSDQ	▲
EDGX	3	31.75		31.76	2	ARCX	
ARCX	1	31.74		31.76	2	GINN	
MSCO	1	31.74		31.85	1	BTRD	
GINN	2	31.73		31.87	1	FPKI	
FBRC	1	31.73		31.89	3	EDGX	
FPKI	1	31.72		31.89	1	CBOE	
PIPR	1	31.71		31.89	1	GSCO	
AUTO	9	31.70		32.00	1	FBRC	
GSCO	1	31.66		32.04	1	PIPR	
CBOE	1	31.62		32.10	1	TWPT	
WCHV	1	31.57		32.11	1	COWN	
COWN	1	31.51		32.25	1	MSCO	
SDLR	1	31.51		32.34	1	CANT	
UBSS	11	31.50		32.35	1	NTE	

Order Blotter

Market Minder

Ticker

Trade Mana...

Indices

Level 3 Quote for NASDAQ OMX Group, Inc. (illustrative)

KEY
 NBBO: National Best Bid and Offer
 NOOP: NASDAQ Official Opening Price
 NOCP: NASDAQ Official Closing Price