

# [Market efficiency of the london stock exchange](https://assignbuster.com/market-efficiency-of-the-london-stock-exchange/)

Market Efficiency of the London Stock Exchange(967 words)

Introduction

The London Stock Exchange (LSE) is in the top-6 most powerful stock exchange of the world and historically its roots started in XVI. The main target of the LSE is to provide well regulated markets for companies and investors.

The Mechanisms of the effectiveness of the London Stock Exchange were developed in order to attract new companies on to its markets. One of them is the implementation of a new high-performance electronic trading platform providing broad opportunities for conducting operations on London stock exchange. The super fast trading platform increased the operational productivity of trading operations as the result the LSE revenues go up.

The existence of December effect was shown through analyzes tendency of leading indexes on annually bases on the London Stock Exchange.

This work focused on analyzing the performance of the London stock exchange and effective regulations and price politics.

The London Stock Exchangeis a stock exchange sitting at the heart of the world’s financial centre in London, England. It was founded in 1571, making it one of the oldest stock exchanges in the world. In April 2018, London Stock Exchange had a market capitalization of US $4. 59 trillion (London Stock Exchange 2018).

It is the sixth largest stock exchange in the world after New York Stock Exchange, Nasdaq, Japan Exchange Group, Shanghai Stock Exchange and Euronext

(Statista 2018).

By the end of 2017 market capitalization of listed companies on LSE, excluding investment fund shares, reached 2, 731, 693 (in millions) and increased by 18% compared with 2013 when capitalization was 2, 307, 236 (in millions). It was insignificant decline in 2015 by 5. 5% and in 2014 by 4% comparing with 2013 (European Central Bank – Statistical Data Warehouse 2017).

The total revenue almost double in 2017 (1, 768 in millions pounds) compare with 974 million in 2013. However the highest total revenue was in 2015 when it reached 2285 million. The similar trend was noticed in gross profit that has been increased by 720 million from 1022 million to 1740 millions in 2017 (London stock exchange 2017).

Trading Platforms

Electronic platform – TradElect was the main trading engine installed by Accenture in 2007 to a cost of £40 million (Young T. 2009). The main aim for the installation and operation of TradElect was the rise of algorithmic trading and competitiveness of the LSE. After introduction of the TradElect platform the LSE has been affected by four outages, starting with seven hours down in September 2008(Ku D. and Lau D. 2008).

In fact, all four outages impacted with large spikes in trading volumes were provoked by different economic events. It showed that TradElect platform cannot cope with high volume transaction and showed its ineffectiveness and weakness in critical moments of trading. According to the Thomson Reuters Equity Market Share Reporter (2009), the LSE’s share of trading in its own stocks fell from 75 percent in October 2008, to just 58 percent in October 2009.

In 2009 the London Stock Exchange announced their will to switch to a new trading platform – Millenium Exchange (Flinders K. 2009). Thus, implementation of new trading platform Millenium Exchange was completed in 2011. The Millenium Exchange became very reliable and flexible trading platform with ultra low latency technology. As the result of the using this trade platform the LSE is saving $16 million a year from 2012.

The trading speed of the new platform is 50 microseconds while the previous platform TradElect had operational speed only 2. 7 milliseconds. New highly optimized processing techniques enable the system to proceed high volume of orders up to 1 million per second (Millennium Exchange 2013).

Santa Rally effect on London stock Exchange

Santa Rally is a seasonal phenomenon. There are different explanations why it is happened. One of the reasons for that could be joy and festive mood around financial sector or traders who expecting holidays and try to raise up their bonuses.

According to statistic from the FTSE100 Index, it had +2. 6% return in two last weeks in December 2017. If analyze the FTSE 100 index from 2000 to 2017 it can be obviously notice that the index every year delivered positive returns before the upcoming New Year. However it should be mentioned that only two years brought negative returns in December when the index decline for -2. 9% in 2000 and   -0. 5% in 2012. The highest return of the index was shown for three years in a row, in 2013 it was +4. 8%, in 2014 +6. 1% in 2015 +4. 9%. (The Harriman Stock Market Almanac 2018).

The performance of the FTSE All Share Index which represents all listed companies on LSE and shows 98-99% of the UK market capitalization shows that the index rose in December in 74% of all years between 1984-2014, the average return was +2. 1%. It shows significantly less volatility compare it with other months.

If examine performance of the index every December of the year from 1984 to 2014 it is clearly visible that positive trends in December, only six years of negative returns in December were recorded since 1984.(The Harriman Stock Market Almanac 2018).

### Conclusion

The effectiveness of the London Stock Exchange directly depends on how it will remain attractive for existing and new companies.

New innovations that have been updating regularly improving performance and stability of trading operations, as the result increasing the annual revenues and the attractiveness for new companies.

December effect plays significant role on performance of the London stock exchange. The seasonal phenomenon, when stock traders increase the leading indexes with lower volumes of trades bring positive impact for listed companies through growth of their capitalization and good image for stock exchange.

The London Stock Exchange will undoubtedly remain one of the most leading and attractive places for new and existing investors despite the growing competition from other exchanges.

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