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MARKETS

Formula for Trading on Trump Tweets Eludes Wall Street's Best and Brightest

Traders face twin challenges of translating tweets into automated bets and big banks' social-media restrictions



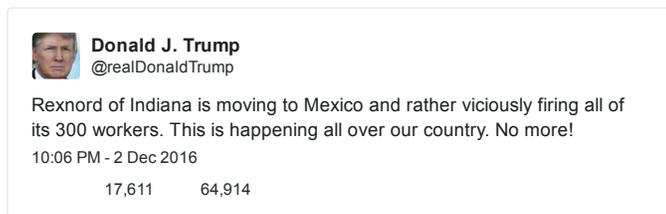
Investors are trying to figure out how to trade off President-elect Donald Trump's tweets. Mr. Trump earlier this month criticized GM for importing compact cars from Mexico to sell in the U.S. Above, workers lay bricks outside the GM assembly plant in Toluca de Lerdo, Mexico. PHOTO: CESAR RODRIGUEZ/BLOOMBERG NEWS

By **CHRIS DIETERICH, BEN EISEN, CHELSEY DULANEY and TELIS DEMOS**

Jan. 13, 2017 5:30 a.m. ET

How do you trade a Donald Trump tweet?

Investors are grappling with the president-elect's highly visible but capricious social-media presence, which is upending well-worn Wall Street formulas for assessing the likelihood of certain developments and baking them into market prices.



Mr. Trump's tweets are challenging large firms to funnel his off-the-cuff remarks into trades in an age of increasing automation, while forcing banks to

revisit restrictions on social-media use. At the same time, the tweets are creating openings for smaller investors to make money on abrupt market moves.

At Mizuho Financial Group Inc. in New York, foreign-exchange trader Daniel Riveira said last year he began discussing with co-workers plans to get the Japanese financial firm to lift its longtime ban on Twitter after Mr. Trump's threats to revise trade policies with Mexico prompted a sharp decline in the peso.

This month, Mizuho granted read-only access for its U.S. banking staff, according to a spokesman. The firm said it lifted the ban to give traders greater access to market-

moving information, not just to Trump's tweets.

"We never thought we needed it before," said Mr. Riveira, who is a managing director at Mizuho. Now, "the people who have Twitter are going to have an advantage over those who don't."

The president-elect has tweeted more than 300 times since the election. Excluding media companies, he has called out publicly traded companies by name or product in 18 separate tweets, including Boeing Inc., Ford Motor Co., and United Technologies Corp. unit Carrier Corp.

Big firms haven't been the only targets. Shares of Rexnord Corp., a maker of bearings and gears with a market capitalization of \$2.2 billion, fell as much as 2.5% last month on the first trading day after Mr. Trump took aim at the Milwaukee company's plans to move jobs to Mexico. Trading volume was double the daily average.



"I used to ask our analysts what was happening with the S&P, or what Janet Yellen said," said Larry Adam, chief investment officer for the Americas at Deutsche Bank Wealth Management. "Now

I also ask if there are updates I need to be aware of" on Twitter.

So far, the trading on Trump's tweets seems skewed toward younger individuals, traders and analysts said. An E*Trade survey earlier this month of more than 900 active investors with at least \$10,000 in an online-brokerage account found that three-fifths of those aged 25 to 34 had traded based on a tweet by Mr. Trump. Among those between 35 and 54, 36% had done so, and among those 55 and over, 20% had.

While many large trading firms increasingly depend on electronic algorithms that can be programmed to buy or sell an instant after an economic-data release or corporate-earnings report, the unscripted nature of Mr. Trump's tweets poses a challenge.

High-speed trading strategies can quickly identify that a stock was referenced in a tweet. But discerning whether the underlying message is bullish, bearish or indifferent presents a significant programming challenge.

"You have an issue of interpreting through language, that's the first problem," said Blair Hull, a pioneer of electronic-trading strategies and founder of Ketchum Trading LLC and Hull Investments LLC. "Experts in linguistics have been working on this for years and still don't get it right."

Another problem is that the small number of examples limits a machine's ability to see consistent patterns, Mr. Hull said.



Accordingly, it took four seconds after Mr. Trump's Jan. 5 tweet attacking a Toyota Motors Co. plan to build a plant in Mexico for the first trade in U.S.-listed shares to hit

the tape, according to data from FactSet. That is practically a lifetime for high-speed traders who blanch at delays in the milliseconds.

Rather than rely on machines to make murky real-time decisions, Mr. Hull said, some of his firm's trading strategies use analysis of shifts in mood caused by tweets as they slingshot across the internet.

"The trading opportunity in a president who tweets isn't so much in the immediate tweet as much as the fact that he's starting a conversation about an issue," said Jamie Wise, founder of Buzz Indexes, which creates a benchmark of stocks based on quantitative analysis of comments made across social media.

Banks are in some cases being forced to rethink what has been a chilly relationship with social media. Bruce Klaw, an assistant professor at the University of Denver and former white-collar crime attorney, said recent scandals involving rigging of the London interbank offered rate have led banks to restrict the use of the internet and personal devices while at work.

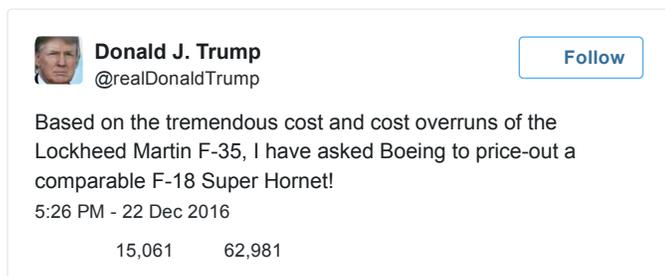
There is a financial motive behind the restrictions, as well.

"You don't want your traders who you're paying a ton of money to be on Twitter all day," he added.

Many large-bank employees are blocked from visiting Twitter.com while in the office. At some institutions such as J.P. Morgan Chase & Co. and Morgan Stanley, traders typically use their Bloomberg screens to track tweets.

At Goldman Sachs Group Inc., traders can see key tweets and follow individuals through Symphony, a messaging service operated by Symphony Communication Services LLC, which is partly owned by the bank.

Dow Jones Newswires, a wire service of Dow Jones & Co., publisher of The Wall Street Journal, is a provider of news on the Symphony platform.



Limits on bank trading can create openings for smaller investors. Two days after Mr. Trump's December tweet about saving money on military contracts sent defense shares lower, Greg Harmon

said he put an options strategy into place on aerospace- and defense-contractor Northrop Grumman Corp.

Mr. Harmon, who runs Ohio-based Dragonfly Capital, which manages about \$10 million, used bearish put options to bet Northrop shares would fall.

He said he closed out part of the trade on Jan. 5, and is now poised to profit if the stock closes above \$223.05 daily through next Friday. The shares closed Thursday at \$229.15.

Even so, Mr. Trump's lack of predictability has a way of frustrating Wall Street. A year-ahead outlook presentation in December by Bank of America Merrill Lynch biotechnology analyst Ying Huang asserted that "the Republican sweep of Congress should ease manufacturers' worries of drug pricing legislation."

As Mr. Huang spoke, drug stocks slumped, reflecting a comment by Mr. Trump in Time magazine that he aims to bring down drug prices.

"It's a brave new world," said Brett Hodess, head of Americas equity research at Bank of America.

Write to Chris Dieterich at chris.dieterich@wsj.com, Ben Eisen at ben.eisen@wsj.com, Chelsey Dulaney at Chelsey.Dulaney@wsj.com and Telis Demos at telis.demos@wsj.com

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