

MARCH 3, 2003

BUSINESSWEEK INVESTOR

The Market's Closed--Wake Up

After-hours trades give you the jump on most investors

After the market's closing bell on Feb. 5, Agilent Technologies ([A](#)), a manufacturer of scientific instruments, had bad news for investors: Sales and profits for 2003 were heading south. Then, in the early hours of Feb. 6, struggling telecom-equipment maker Ericsson said it would replace its chief executive. By the time official trading began the next day, shares of Agilent had dropped 25% while Ericsson ([ERICY](#)) had jumped 10%.

Two stocks, two different fates. But with one strategy--after-hours trading--attentive investors could have maximized their gains and minimized their losses. Those cashing out of Agilent at \$16.32 in after-hours trading on Feb. 5 could have prevented a loss of up to 14%. The stock now trades at \$12.49. On the other hand, those waiting to buy Ericsson in the regular session wouldn't have gained a cent on the jump to \$7.42 from \$6.71.

The after-hours market takes place five days a week, mostly in the 90 minutes after the New York Stock Exchange and NASDAQ close at 4 p.m. and the 90 minutes before the 9:30 a.m. opening bell. It was once limited to sophisticated institutional investors. But with online trading and Electronic Communication Networks (or ECNs, which allow investors to bypass commissioned market makers), and favorable regulatory changes, individual investors can get in the game as well.

Now, an average 70 million shares change hands after hours. While that's a fraction of the average 1.2 billion shares traded each day on the New York Stock Exchange, extended-hours trading can be lucrative once you learn the ropes. "The after-hours market allows you to beat everyone to the punch," says Mike Prus, a money manager with MGP Capital Management in Boston. He often trades until 8 p.m. for personal and client accounts.

Trading after hours is even trickier than during the regular market. Often in response to unexpected news, stock prices will make exaggerated swings that would have been less pronounced in regular trading hours. At its best, pre- and postmarket trading can offer you an entry or exit point ahead of the crowd. "If there's bad news, you have an escape hatch," says

Brooks McFeely, president of MidnightTrader in Boston, an online service that collects and posts market-moving information, such as official company announcements.

Despite the bouncy ride, after-hours trading is less volatile than it was during its debut three years ago. "The day-trading cowboys of the Internet era are no longer in the market," says McFeely. "The dumb money is gone, and the more sophisticated investors are in charge." Here's how you can get in on the action:

-- Nail Down the Mechanics. Ask your brokerage firm how it operates in the after-hours market; each outfit has its own rules. E*Trade has a 12-hour trading day, from 8 a.m. to 8 p.m. Ameritrade requires that you place a phone call for your after-hours trades.

Some brokers, such as CyBerCorp, allow orders entered during the day session to remain open in the following after-hours session. Otherwise, you must explicitly designate trades for the after-hours market. You must also enter after-market orders as limit orders, meaning you state the number of shares and price at which you are willing to buy or sell the stock. Money manager Prus says limit orders protect investors in fast-moving markets where prices fluctuate wildly. Orders designated after-hours that remain unexecuted by the end of the session are canceled.

-- Look for What Moves Markets. More than 90% of corporate announcements--such as new sales figures, product launches, or merger plans--occur outside of the regular trading session, says McFeely. In addition, nearly all corporate earnings announcements and shortfall warnings are released after the markets officially close, according to Thomson Financial/First Call. On Feb. 6, Douglas Robertson of Portland, Me., caught late news that Pixar ([PIXR](#)) was ending its contract with Walt Disney ([DIS](#)). Robertson, anticipating that the market would overreact, called in an after-hours trade to short Pixar at \$54, which subsequently fell to \$48. In the premarket hours the next day, he e-mailed his brokerage company to buy, and the stock jumped in normal market hours to \$51. "Just because I had a good trade doesn't mean that's always the case," he says.

-- Stick with Large-Cap Companies. The most well-respected blue chips dominate the extended-hours market. The 10 most active securities include Cisco Systems ([CSCO](#)), Dell ([DELL](#)), Sun Microsystems ([SUNW](#)), Microsoft ([MSFT](#)), and Oracle ([ORCL](#))--so if you're interested in these stocks, study extended-hour stock patterns.

Qualcomm ([QCOM](#)), JDS Uniphase ([JDSU](#)), Applied Materials ([AMAT](#)), and Nokia ([NOK](#)) have also been big movers, McFeely reports. But because news is the driving force in the after-hours market, any company can make the most-active list for a day. Home Depot was among the top movers on all the ECNs in premarket trading on Jan. 3, after the company cut its earnings outlook late the day before. On any other day, Home Depot would not even be one of the 20 most active stocks.

-- Capitalize on Changes to Major Indexes. The addition of a security to a major stock index

will have an impact on the stock's price. Funds that replicate indexes like the Standard & Poor's 500-stock index have to buy the newly added security and sell the old one. When S&P announced that Overture Services ([OVER](#)) would join the S&P MidCap 400 Index after the close of trading Dec. 6, Seacoast rose nearly 7% in after-hours trading as index funds and other traders bought in on the news.

-- **Watch for New Trading Rules.** The after-hours market can be volatile. For that reason, the Securities & Exchange Commission is exploring whether the Short Sale Rule, which now applies to regular trading hours, should apply. The rule says that investors can't sell a stock short--making a bet that it will drop in value--if the stock is already falling, or the last bid change was a down tick. The rule helps prevent a stock from being nudged into a free fall. NASDAQ officials are considering whether the after-hours market has developed to the point that applying the National Association of Securities Dealers Short Sale Rule to trading from 4 p.m. to 6:30 p.m. would help mitigate the price volatility.

Buy-and-hold investors are best advised to tune out the daily fluctuations of their portfolios. But for trades that just can't wait, it's smart to use the after-hours market.

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