

FIN05

Trading Real Estate Investment Trusts in the Dark

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Abstract

We find that the Federal Open Market Committee (FOMC) announcements affect the trading of real estate investment trusts (REITs). Traders are more active around the announcement and their venue preference shifts to lit exchanges consistent with the pecking order hypothesis. Assuming heterogeneity in private information and willingness to bear risk, traders route their orders based on the precision of their information and execution certainty. Traders with strong signals will switch from off-exchange venues and route to lit exchanges to quickly trade on their private information and avoid high execution risks. We also find that traders in particular route orders to lit exchanges around tightening monetary policy announcements reflecting their reduced appetite for risk.

Conference Track

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