

## **Study: Corporate Bonds Offer Investors Higher Liquidity in Israel than Worldwide**

**Prof. Avi Wohl of the Tel Aviv University and Dr. Meni Abudy of the Bar Ilan University have examined corporate bond trading at the Tel Aviv Stock Exchange (TASE) and found that the participation rate of private traders is much higher relative to the American market, where trading costs are much higher than in Israel**

Israel's corporate bond market offers high liquidity to small and institutional investors relative to its American counterpart, says a new study by Prof. Avi Wohl of the Recanati Business School at the Tel Aviv University and Dr. Meni Abudy of the Business Administration School at the Bar Ilan University. This assertion is also supported by data from the World Federation of Exchanges, with the Israeli Stock Exchange ranking third in the world in corporate bond trade volume as of 2015.

The study, which examined trade on the corporate bond market in 2012, was conducted with the aim of comparing bond trading by the open limit order book system, as is the case in Israel, with over-the-counter (OTC) markets, the common mechanism for corporate bond trading in most markets worldwide.

Wohl and Abudy have found that the Israeli corporate bond market features a broad range of investors, small and institutional, who benefit from an efficient market with low trading costs (bid-ask-spreads excluding bank or TASE members' fees), relative to the stock market in Israel and to corporate bond markets around the world, in which the activity of institutional investors is mostly predominant due to high trading costs for small investors.

### **Large Number of Transactions**

According to the study, at the Israeli Stock Exchange, corporate bond turnover is higher than that of stocks, and the number of transactions per day (approx. 70 per bond, on average) is much higher than the one in the United States (one to two transactions per day per bond, on average).

During the sample period, the daily average trading volumes in the corporate bond market were NIS 781 million (compared with NIS 958 million in stocks), with only 9.5% off-exchange transactions (comparable to stocks –10%). The turnover of corporate bonds was 55.5%, which is significantly higher than that of stocks (30.4%).

The bid-ask-spreads in the corporate bond market are low compared with the United States, but also compared with the Israeli stock market. In the small traders' transactions examined by the researchers, it was found that the average quoted half bid-ask spread for the relevant bond was 0.11% (in practice, execution costs were 0.067%, because some of the investors did not execute transactions against the spread, but rather placed orders at better prices). The two researchers have also found that the quoted bid-ask-spreads of corporate bonds were much lower than those of the corresponding stocks.

For comparison purposes, various studies published with respect to corporate bond trading in the United States showed that, in transactions of up to \$5,000, the investors' trading costs were 0.75%, whereas the costs for investors of roughly \$1 million was 0.09% - which is still higher than the trading costs of small investors in Israel.

The findings arising from the corporate bond market in Israel are, as aforesaid, materially different than its American counterpart, where the participation rate of private investors is extremely low and costs are tenfold higher than the costs in Israel.

#### Significant Activity by Small Investors

In the study, the researchers checked approx. 468.5 thousand accounts with an annual trading volume of less than NIS 1 million in all TASE securities (excluding options). They referred to these investors as Small Retail Investors (SRI). The SRIs examined were active on average in 5.1 securities and approx. 5.5 trading days. Their trading volume in corporate bonds was 12.2% of the total volume, compared with 8.7% in stocks.

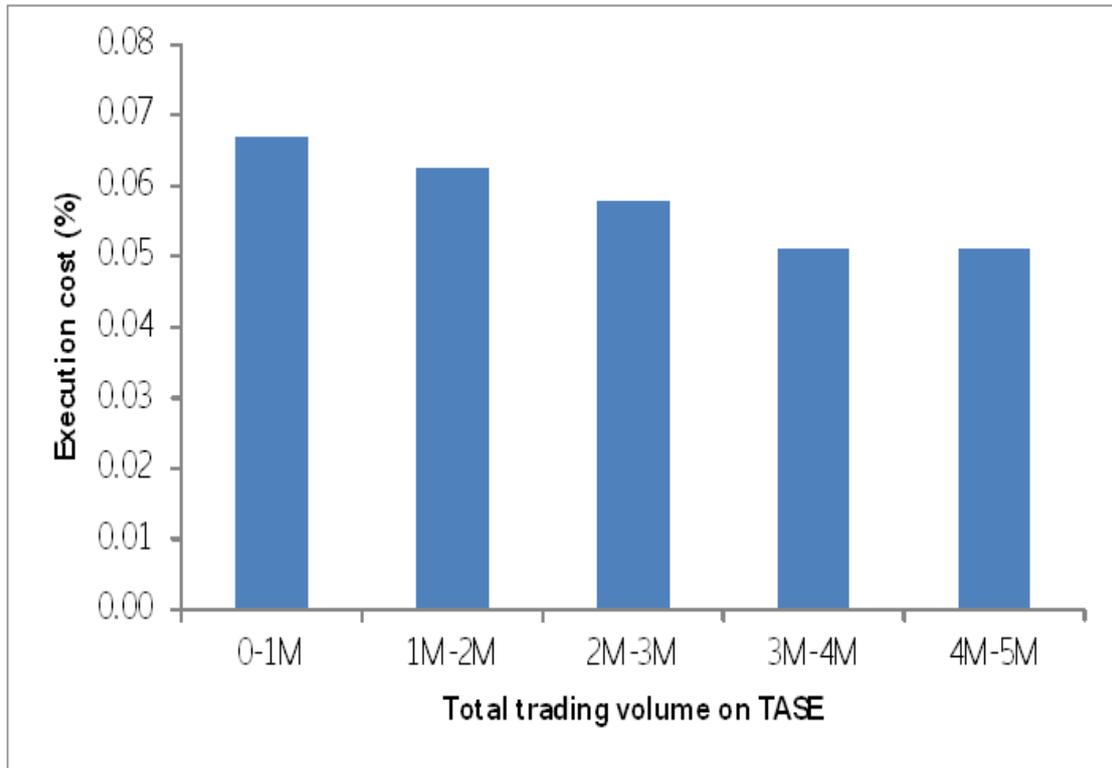
For traders with an overall volume of up to NIS 2 million, trading volume in corporate bonds was 17.6% of the total volume, compared with 13.1% in stocks. For comparison purposes, studies conducted in the United States have found that 1.2% of the trading volume was generated by transactions of up to \$100 thousand each. Most of these transactions were executed by institutional investors, apparently indicating that the participation of private investors is negligible.

These figures underscore that in Israel the participation rate of private investors in the corporate bond market is higher than their participation rate in the stock market, and much higher than the participation rate of private traders in the American corporate bond market.

### **General Data on TASE Trade (from the paper)**

	Stocks and Warrants	Corporate bonds	Government bonds	ETNs	TASE market
Number of securities	976	661	45	440	2,122
Average daily NIS volume in the exchange (in 1,000,000 NIS)	958.00	780.89	2,674.56	324.92	4,738.37
Trading volume outside exchange (%)	10.00%	9.55%	19.53%	10.36%	15.60%
Market cap (in billion NIS)	786.41	360.34	576.56	321.68	2,045.00
Annual Turnover in the exchange	29.85%	53.09%	113.65%	24.75%	56.77%
Average number of transactions per day	45,201	18,573	8,311	6,613	78,698
Number of traders on 2012	241,389	206,820	200,632	201,596	492,450

### Investors' Execution Costs by Annual Trading Volume (NIS in millions)



Link to the full paper:

["Corporate Bond Trading by Retail Investors in a Limit Order Book Exchange"](#)