Performing anonymity:
Investors, brokers, and the malleability of material identity information in financial markets

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D4: Market Structure, Pricing, and Design
D81 Criteria for Decision-Making under Risk and Uncertainty
D82: Asymmetric and Private Information; Mechanism Design
G11 Portfolio Choice; Investment Decisions
G14: Information and Market Efficiency; Insider Trading
G18: Government Policy and Regulation
G23: Institutional Investors
G24: Brokerage
Z1: Economic Sociology; Economic Anthropology
Structured Abstract

Purpose
Although markets are intensely social, stock markets are peculiar in that they are normatively anonymous spaces. Anonymity is a difficult-to-achieve social accomplishment in which material identity information is successfully stripped from participants. The academic literature is conflicted regarding the degree to which equity markets are anonymous and how this influences traders’ behavior.

Methodology
Based on focused, tape-recorded ethnographic interviews, the article investigates the work practices of professional investors and brokers to describe the conditions under which brokers veil or reveal investors’ identities to their competitors, and thereby shed light on how anonymity is socially produced (or eroded) in global stock markets.

Findings
The social structure of brokered financial markets places brokers in the awkward situation of sitting in an information-poor structural location for so-called “fundamental information” while being paid to share information with professional investors who sit in an information-rich structural location. A resolution to this material and social dilemma is that brokers can erode the market’s anonymity by gifting identity information (“order flow”) — the previous, prospective, or pending trades of their clients’ competitors — thereby providing traders a competitive advantage. They share identity information in three types of performances: transparent relationships, masked relationships, and the transformation of illicit material identity information into licit and shareable “fundamental” information. Each performance partly erodes transaction-level and market-level anonymity while simultaneously partially supporting anonymity.

Originality/Value
Even well-regulated markets are semi-anonymous spaces due to the systematic exposure of investors’ identities to competitors by their shared brokers on a daily basis. This finding provides an additional explanation for how professional investors can imitate one another (“herd”) as well as why subpopulations of investors often trade so similarly to one another.

Practical implications
Laws and regulations requiring brokers’ confidentiality of their clients’ trades are easily and systematically eluded. Policy makers and regulators may opt to respond by increasing surveillance and mechanization of brokers’ work so as to promote a normatively anonymous market. Alternatively, they may opt to question the value of promoting and policing anonymity in financial markets by revising insider trading regulations.
Introduction

Economic sociologists have long argued that markets are intensely social places, so that markets are organized not by the “invisible hand” of anonymous competition, but rather by identifiable market participants observing, monitoring, and communicating with one another (Weber 1981 [1923]; White 1981; Granovetter 1985; Podolny 1993; Fligstein 2001).

However, financial markets are peculiar. Most financial markets are normatively anonymous spaces where strangers meet, transact, and depart with most—if not all—of their identity veiled. To attract order flow from competing financial markets, market owners and their engineers attempt to design markets to veil material identity information. This is because econometric analyses demonstrate that investors are more likely to trade—and to trade larger quantities—in normatively anonymous markets (Madhavan 2000: 234-241; 2005). Economic theory suggests that professional investors prefer anonymity because all investors fear trading with counterparties identifiably better informed than they are (O'Hara 1995; Reiss and Werner 2004). Such academic theorizing about anonymity shapes market design and participants’ behavior, just as scholars in the “performativity school” would expect (Callon 1998; MacKenzie and Millo 2003; see MacKenzie, Muniesa and Siu 2007 for an introduction and sympathetic critique). As a consequence, many financial market owners and regulators attempt to attract order flow from competing markets by strategically engineering anonymity as a transaction-specific and market-level attribute (on market engineering, see Burk 1985, 1992; Abolafia 1996; Fligstein 2001; Pardo-Guerra forthcoming).

<Insert Figure 1 about here. See figure at end of document.>

Anonymity in financial markets is a difficult-to-achieve social accomplishment in which material identity information is successfully stripped from participants, and in which incentive structures are put in place and maintained so as to prevent the discovery of material identity information. For example, as illustrated in Figure 1, in electronic stock exchanges such as the Malaysian Stock Market (Bursa Malaysia), there are two intermediating social institutions to assist in
making investors anonymous to one another. The first is that investors are required to route their orders via brokerage firms, as is common in many other stock exchanges (Comerton-Forde and Rydge 2004, 2006; Pardo-Guerra 2010). Investors’ identities are further protected by the stock exchange as a second mediating institution, which uses a computer to match buyers and sellers. After a bid and offer are matched and the transaction completed, only the identities of the two brokerage firms routing the investors’ trades are publicized; the identity of the investor and his or her asset management firm is kept confidential to the market. These anonymizing social institutions are supported by Malaysia’s securities legislation and the Securities Commission’s ‘relatively excellent’ reputation for enforcement.

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1 A weak exception to this rule is that shareholders with a large ownership stake in the company (“insiders”) are required to publicize their purchases and sales of equity in that company. This is a common requirement in other stock markets as well.

2 Readers should be wary of submitting to a northern bias by assuming that so-called “emerging market’s” social institutions are weaker or less effective than those in “mature” stock markets. The World Bank (2013: 179) has for a number of years ranked Malaysia’s stock market as the fourth highest-ranked economy in the world in terms of investor protection; this is higher than stock markets in wealthier “mature” markets such as Canada, the United States, or the United Kingdom (also see Demirgüç-Kunt and Levine 2001; International Monetary Fund 2013). This is not to argue that systematic violations of anonymity such as insider trading or accusations of lax enforcement by securities regulators are absent, but rather that the Malaysian capital market is comparable to other countries with so-called “best practice” legislation and regulatory institutions.

An alternative perspective for understanding the superiority of financial regulation in Malaysia relative to countries in the global north is to recall that insider trading and lax enforcement are pervasive in northern financial markets characterized as “best practice.” Consider the United States as a prospective benchmark. In 2009, the hedge fund manager and founder of the Galleon Group, Raj Rajaratnam, was found guilty of conspiracy and securities fraud. In addition to revealing an extensive and established illegal insider trading network, the case also revealed how the licit “expert network” industry is vanishingly similar to illicit insider information, insofar as the industry pays insider experts to provide exclusive material information to investors (Jeng Forthcoming). Systematic weaknesses in the enforcement of securities regulation by the Securities and Exchange Commission (SEC) was also revealed after Bernard Madoff, the former non-executive chairman of the NASDAQ stock exchange, pleaded guilty in
A number of ethnographic studies have confirmed the successful social production of anonymity. For example, in currency markets, a professional trader notes that “(the market on screen) is probably like 99.99999% anonymous.” (Knorr Cetina and Bruegger 2002a: 167-169; Knorr Cetina 2005: 47). In a participant-observer study of intra-day futures trading in another financial market, Caitlin Zaloom’s (2003, 2006) fellow traders associated particular trading strategies with “Chicago,” “the Germans,” or fellow “Essex boys,” but the actual identities (much less nationalities) of the traders were unknown. In a path-breaking study of how individual non-professional investors invest and disinvest on the stock market, Preda (2009, 2013) attended carefully to how investors interpreted other traders in the market and found that although the market is wholly anonymous, to aid cognition investors attached identity “tags” to the trading phenomenon on their trading screens.

Economists typically assume that the social production of anonymity is successful (Raines and Leathers 2000). This is most evident in literatures where identity information becomes material, such the vast literature on “herding” in financial markets, where professional investors imitate prior trades by competitors. For example, in their econometric study, Hu, Meng and Potter (2008: 682) assert without evidence or citation that “it is important to note that...our sample institutional investors do not even know each other’s trades.” In Bikhchandani and Sharma’s (2001: 282) supportive survey of the herding literature, the authors propose (without evidence) that “it is unlikely that investors observe each other’s holdings of an individual stock soon enough to change their own portfolios.” This bold statement is amended with a footnote:

Of course, there is some information leakage through brokers about the trading patterns of various funds and investors. And many companies market

2009 to a securities fraud that had operated continuously since the early 1990s, and perhaps earlier.
‘snapshots’ of quarterly holdings. Still, it is difficult to get reliable information on
daily, weekly, or even monthly changes in quarterly portfolios.

In contrast to these findings, in my ethnographic interviews with Malaysian professional
investors, I found systematic leakage of identifying information from brokers to investors in an
otherwise anonymous market. This finding appears to be supported by independent research
among hedge funds in the global north (Simon, Millo, Kellard and Engel forthcoming). My
professional investors’ narratives are peopled with figures “tagged” (Preda 2013) with diverse
identity information including pseudonyms, geographic locations, social categories such as
nationality and race, and patterns in their historic behavior. The market is semi-anonymous
insofar as the investors rarely knew a market figure’s name, and all material identity
information were inferences of varying certainty.

This article performs two tasks to reconcile these contradictory findings and to explore the
implications of identity information leaking between competitors in normatively anonymous
financial markets. First, it synthesizes recent and forthcoming research to explain how and why
professional investors obtain material identity information regarding their competitors. I argue
that the motivation of investors in gaining information regarding competitors’ trades is unlikely
to be imitation of the trades of better-informed or higher-skilled investors, but rather as a tool
for thinking through his or her own trading problems. Additionally, investors seek material
identity information in order to overcome the pervasive illiquidity of many financial markets.

The article’s second task is to investigate the work practices of brokers in global financial
markets—an undertheorized and understudied actor—to ethnographically observe the
conditions under which brokers veil or reveal investors’ identities to their competitors, and
thereby shed light on how anonymity is socially produced (or eroded) in global stock markets. I
find that investors and their brokers negotiate three different strategies to overcome
conflicting interests with regard to the sharing of identity information: transparent
relationships, masked relationships, and the transformation of illicit material identity
information into licit and sharable “fundamental” information. As a consequence of these
three strategies, even well-polic ed normatively anonymous financial markets are in fact semi-
anonymous due to the systematic exposure of investors’ identities to competitors by their 
shared brokers. As explored in the conclusion, these findings have a number of implications for 
scholars of investor behavior and global capital flows. It also has implications for policy makers 
and regulators of financial markets.

This article’s argument was induced from over 125 tape-recorded semi-structured ethnographic 
interviews with finance industry workers in Malaysia in 2001-2002 and 2006, focusing on each 
interviewee’s prosaic work practices surrounding investment and disinvestment decisions, 
particularly his or her activities on the day of the interview (Spradley 1979). In all interviews, 
we discussed sources of information that the interviewee used in his or her work. In narratives 
of trades that professional investors conducted, the interviewees described the key information 
that they used in their decision-making. Interviews were coded and analyzed with respect to 
the use of identity information in investment decisions, and with regard to the relationships 
between investors and their brokers. Evidence contrary to the emerging thesis was 
systematically sought from the transcripts and inductively incorporated in the analysis (Ragin, 
Nagel and White 2004). My decision to code investor-broker relationships arose from 
interviews with investors who described receiving identity information from brokers in (what 
some interviewees referred to as) “value-added” relationships. The typical interview was one-
on-one, approximately 90 minutes in length, and with up to three interviewees selected from 
each firm. All names are pseudonyms that do not reflect the race, gender or religion of the 
interviewee.

**Literature Review**

How and why do professional investors pierce the anonymity of the stock market?
Motivation

The most intuitive explanation as to why professional investors seek information about their competitors’ trades is that they desire to “reverse engineer” or “imitate” the trades of their better-informed or higher-skilled competitors. As Peter Tufano (1989: 230) notes in an influential article on the subject, innovative products in the finance industry “can be reverse-engineered easily and cheaply” (also see Tufano 2003; MacKenzie 2007: 362-363). For example, arbitrage traders seek to profit from dissimilar prices of two similar assets. If one can learn about one asset in a competitor’s strategy, it is not difficult to infer a short list of potential other assets and then to conduct one’s own research to choose between them (e.g., MacKenzie 2003; Beunza and Stark 2004; Miyazaki 2013; Simon, et al. forthcoming).

This explanation appears to be supported by the econometric literature, which has repeatedly documented investors in emerging and established markets trading more similarly to one another than could be expected from chance alone. However such correlated behavior may occur for reasons other than imitation. For example, investors may independently reach the same conclusion after having interpreted the same data using the same investment theory, or having used the same software, or having read the same media, or by making the decision within an asset management firm organized with a decision-making structure similar to that of its competitors. In Pitluck (2014), drawn from the same fieldwork as this article, I found that Malaysian investors didn’t imitate the trades of their foreign competitors, even when they perceived their competitor as better informed or more highly skilled. Although it is difficult to infer—much less summarize—why someone doesn’t do something, a theme consistent across interviews was that my informants perceived their trading problems as incommensurable to that of their competitors. To put it another way, my interviewees weren’t motivated to imitate their smarter or better-informed competitors because their competitors’ goals were perceived as incommensurable to their own. This self-perception is rather counter-intuitive given the fact that these investors are competing for the same clients, investing in the same stock market, and often making decisions with roughly similar information.
If they are not herding, why are professional investors talking about—and asking their brokers about—their competitors’ behavior? I suspect that a stronger explanation is that investors talk with their competitors or with their brokers regarding trades in the market to help them think. Perhaps the clearest evidence for this hypothesis is that Alex Preda (2009, 2013) observed semi-professional investors working at home alone talking about their trades even when there was no conversation partner. Preda also documented that these investors would communicate throughout their day with pseudonymous competitors on electronic communication platforms to help them interpret price movements and the motivations of previous transactions. Preda’s work elaborates on what has become an established fact in the social studies of finance—the role of conversation in constituting global financial markets (Knorr Cetina and Bruegger 2002a).³

A second explanation for seeking information about competitors’ trades is to assist in overcoming illiquid times (Pitluck 2011). Illiquidity refers to the difficulty of finding a counterparty. To use the familiar expression, “it takes two to tango”; an investor cannot trade without a counterparty. For professional investors in the world’s stock markets, including Malaysia’s, there is insufficient and volatile liquidity in the market—that is, there is typically an insufficient number of counterparties and potential counterparties willing to trade at or near the listed price. This forces professional investors to trade slowly, dicing up their trade packages into small slices that are traded at projected periodic intervals over the course of days, weeks, or even months into the future. This has two consequences for the exchange of material identity information between investors and brokers. First, because of illiquid times,

³ Additionally, this body of work emphasizes that financial markets are constituted by the communication that market participants have with their computer screens—what Karin Knorr Cetina refers to as “scoping systems.” This “constellation of technical, visual and behavioral components packaged together on financial screens” is a global scoping system that delivers “to participants a global world in which they can participate on a common platform, that of their shared computer screens” (Knorr Cetina and Grimpe 2008: 164, also see Beunza and Stark 2004; Knorr Cetina and Bruegger 2002a; b).
brokers are frequently aware of portfolio managers’ prospective and pending trades, as well as their historic trades. Material identity information is therefore easily inferred. Second, in order to overcome endemic illiquidity, investors must time their trades during ‘liquid times.’ By learning about historic, pending, and desired trades by competitors in the market, investors and their brokers can attempt to time trades during liquid times so as to execute a larger proportion of their desired trade rapidly and affordably near the listed price (Pitluck 2011).

To summarize: illiquid times ensure that material identity information is plentiful and inferable by both investors and brokers. Professional investors rarely desire such identity information in order to imitate or reverse-engineer their competitor’s trades, but to pragmatically solve their trading problems and to seek out prospective counterparties.

How do investors pierce the veil of anonymity?

We can read the social studies of finance literature (Knorr Cetina and Preda 2005, 2012; Rudnyckyj 2013) as tracing two routes through which financial workers obtain material identity information regarding their competitors and prospective counterparties: investors may share trading ideas with their competitors, or investors may receive competitors’ trading ideas from their shared brokers.

Direct communication between competitors

Although initially counterintuitive, sociologists researching other markets have observed cooperative behavior among competitors in order to benefit from reciprocal exchanges of information, enhanced collaboration for mutual benefit, and collusion to diminish competition (Ingram and Roberts 2000). Although we may expect such business friendships between competitors to have a reduced instrumental efficacy for contemporary corporations when they are subject to strong internal corporate governance regulations and strong external antitrust legislation (Ingram and Lifschitz 2006), nevertheless there are many areas of corporate life where employees can have substantial autonomy, and therefore the capacity to exercise business friendships for an economic advantage (p.350). This appears to be the case in many
financial firms where traders and their staff appear to have significant autonomy (Godechot 2008).

Two studies emphasize that professional investors speak with competitors regarding their trading positions to aid their decision-making. Jan Simon and colleagues (2013) finds that hedge fund managers communicate on a daily basis with their closest competitors. Their argument is based on interviews in 26 hedge funds and 8 brokerage firms with fund managers, brokers, analysts and traders in the US, Europe, and Asia, as well as observatory fieldwork in ten firms. The authors find that hedge fund managers speak several times per day with one or more of their competitors to discuss trading ideas and appraise one another on the status of their existing positions. Such conversations are notable for their reciprocal exchange and for the depth with which conversation partners would seek to “exhaust...all possible angles of inquiry when evaluating a trading position” (17). “In fact, we did not witness any hedge fund managers who develop their investment ideas in complete secrecy” (29). In a social network analysis of the global hedge fund industry, Choi (2010) uses a different dataset to provide indirect evidence of fund managers speaking with former co-workers in competing hedge funds.

In my own field site, although professional investors commonly had business friendships with former co-workers in competing firms, I found little evidence of systemic, widespread sharing of information between competing investment managers. One possible explanation for this difference between field sites is that the Malaysian asset management firms I studied are public corporations subject to audits, corporate governance regulations, and government supervision. In contrast, hedge funds in the global north are by definition loosely regulated, and are typically small, private, opaque corporations lacking oversight by an independent board of directors. Therefore, business friendships between competitors may be less instrumental in large public financial firms such as asset management firms, pension funds, and insurance companies, but may be consequential for small, private financial firms such as hedge funds (c.f., Ingram and Lifschitz 2006).
In sum, although forthcoming and unpublished research finds that there is significant sharing of information and trading positions between professional investors in hedge funds (Simon et al. forthcoming; Choi 2010), we should be cautious of expanding the scope of this finding to include publicly listed financial firms with stronger regulatory oversight until we have affirmative evidence of investor-to-investor communication in such firms.

**Indirect communication via brokers**

The second route through which investors can gain material identity information about their competitors is from their shared brokers. As illustrated earlier in Figure 1, competing asset management firms are serviced by some of the same brokerage firms, and typically are serviced by the same brokers. Brokers therefore possess a unique form of information of considerable value to their customers—information regarding their competitors.

Regardless of their compensation structure, brokers are salespeople oriented towards eliciting trades from their clients. Brokers seek to understand their customers so that they can deliver the kind of information they understand their customers as valuing. Brokers tend not to have a unique interpretation of the market; rather, their interpretations are pragmatic, and reflect the interests, strategies, and requests of their clients (Smith 1999). In my field site, brokers are faced with a conflict of interest insofar as they are required and expected to maintain the confidentiality of the clients’ trades, while at the same time, their clients desire and often request information about their competitors.

**The undertheorized role of brokers**

To summarize, our literature review suggests that brokers are a potential and even likely source for disseminating identity information in normatively anonymous markets. However the econometric and ethnographic literature can bring us no further.
The undertheorized role of brokers: Why do brokers erode anonymity by revealing identity information to professional investors?

To understand the conditions under which brokers erode normative anonymity by revealing identity information to professional investors, the remainder of this article draws on ethnographic data to induce the social structure of investor-broker relationships. To preview the argument, I observe that brokerage firms are in intense competition with one another to broker the orders of investors. To encourage investors to select them, brokers provide myriad services for investors. This industrial relationship is constituted in the microsocial structure of their telephone relationships. As a consequence of the industrial and microsocial structure, brokers are in the awkward situation of sitting in an information-poor structural location and being paid to gift information to investors in an information-rich structural location. Self-evidently this is an untenable situation. A potential material and emotional resolution to this dilemma is that brokers can share identity-laden information which is valued by their clients. However, this information is confidential and illicit to gift. I induce three non-exclusive strategies that brokers use to manage investors’ demands, all of which, to varying degrees, erodes the carefully engineered anonymity of the stock market.

The industrial structure of investor-broker relationships

Given the requirement to route their orders via brokers, asset management firms therefore select brokerage firms that offer the lowest prices for the best services—of which the two self-perceived most important services are “information” and “execution” (on execution, see Pitluck 2011: 28, 36-37). In Malaysia, each asset management firm selects a “panel” of brokerage firms to whom they send orders. Brokerage firms “high” in the panel receive larger shares of the orders. Asset management firms appraise the performance of brokerage firms in their panel on a periodic basis, typically semi-annually or quarterly.

Brokerage firms’ principal revenue streams are commissions for brokering the orders of asset management firms. Interviewees in both asset management firms and brokerage firms
perceive brokerage firms to be in an intense competition with one another in order to be selected on asset management firms’ panels, as well as to maintain or improve one’s hierarchical position within the panel in each audit period. Competition is especially keen between brokerage firms to join the panels of the asset management firms with the largest (and therefore most lucrative) portfolios.

The microsocial structure of telephone ties

The asymmetrical industrial relationship between asset management firms and brokerage firms structures the microsocial qualities of investor’s and broker’s conversations with one another. Investors choose which medium they prefer to use to communicate with their brokers. In the early 2000s, the most influential medium through which brokers communicated with investors was the telephone.

Telephone technology and the norms regarding use of this technology create three microsocial constraints in broker and investor interactions that have macrosocial implications. First, brokers must call their investors almost daily within a short time after arriving for work. During months of slow market activity (as occurred during my two periods of fieldwork), depending on the relationship, brokers may choose to call less frequently than daily. Second, this contact is primarily unidirectional, and the length of the conversation is determined by the investor. The modal telephone conversation is brief—less than a few minutes, with significant exceptions. Brokers rarely gain material information from investors. As a broker explains, “Usually, in those conversations, I just give information. The most I can get is what they think in two seconds. Usually they don’t have time to tell you what they think.”

The third microsocial constraint is that brokers are unable to initiate a telephone call with investors without “news,” an “angle” or another conversational topic to fill up telephone time. When brokers call investors, typically in the morning, their information is given as a gift in the hope of a future reciprocated gift of order flow, thereby resulting in a broker’s commission. By a gift, I mean a unidirectional transaction in anticipation of a reciprocal exchange far enough in
the future that the exchange is not conceptualized as a simple quid pro quo, nor is there a simple commensuration between the two exchanges (Mauss 1990; Callon 1998: 14-15). These gifts between investors and brokers are not between social or economic equals. Brokers call with their best telephone content in the hope that it will result in a future transaction from which they receive a commission. They have little or no expectation that today’s talk will be directly related to today’s potential transaction. As one broker explains, “[Investors] reward you for . . . the effort of giving market news.”

Yet as numerous brokers explained and investors complained, to reinstantiate telephone ties each day, brokers often have to rely on reporting non-novel news events that investors can get from public sources, or discuss “non-market” events such as political gossip or sports.

Brokers in contemporary financial markets are unlikely to rely as much on telephones ties as my brokers did in the early 2000s. However numerous alternative media share similar microsocial constraints as the telephone; for example, one cannot initiative a conversation without a conversational topic, and brokers continue to compete with one another to use media to capture the limited attention of professional investors in the crucial time period between investors arriving at work and the market opening. Nevertheless, this article’s argument does not rest on telephone technology. Rather, I argue that it is the asymmetrical industrial relationship between asset management firms and brokerage firms discussed below that shapes the communication between brokers and their clients—regardless of the technological media that they use.

**Information-poor brokers gift information to information-rich investors**

The industrial and microsocial structure of investor-broker relationships shapes how each party can tap into their social networks to procure information. Intriguingly, this varied by the category of material information. I found that information regarding listed corporations, so-called “fundamental” information, flowed both actively and passively to investors, while brokers were information-poor. With regard to identity information, so-called “order flow”
information, the situation was reversed: brokers are rich in order-flow information, while professional investors are (relatively) information-poor.

“**Fundamental**” information is information regarding listed corporations that can have a material impact on its stock price. For example, news or a rumor regarding a firm acquiring a profitable contract is fundamental information that can affect its share price (Smith 1999; Harris 2003). “Fundamental” information concentrates in asset management firms because they are the focus of brokers’ attention. Each morning brokers gift their self-perceived choicest information to investors over the phone. Throughout the trading day, if a broker receives “fundamental” information he or she perceives as valuable, the broker immediately shares it by contacting a sequence of investors. Investors reciprocate for such gifts with their order flow (for which brokerage firms receive a commission). In social network terms, investors are rich in “fundamental” information because they are the hub in an extensive social network of brokers competitively seeking to gift them information.

In contrast, brokers are poor in “fundamental” information in two senses. First, brokers rarely receive such gifts from asset management firms, in part because brokers generally have only non-pecuniary means to reciprocate such gifts. Second, brokers are also information-poor in the sense that they are in a structurally weak position to ascertain the value (or lack of value) of their gifts. For example, investors may easily ascertain the novelty of a broker’s information gift by comparison to verbal statements by their other brokers; brokers can only guess at how widely their information is already known based on their own information source and by their “talk-in-interaction” (Hopper 1992) with investors. Conversely, brokers are likely to be unaware of the information’s value unless this is reported to them by the investor or if they infer its value from the investor’s conversational response. Many investors attempt a demeanor of reserved inscrutability while receiving brokers’ fundamental information designed to maintain brokers’ ignorance of their information’s value. Brokers are therefore in the emotionally difficult position of sitting in an information-poor structural location and being tasked to gift information to investors in an information-rich structural location.
Despite relatively unidirectional conversational protocols, some material information nevertheless seeps from investors to brokers. Broker-investor telephone talk is an interactive talk-in-interaction (Hopper 1992). This is intrinsic to the microsocial properties of telephone conversation. Whenever telephone conversations are conducted,

\begin{quote}
turns have to be taken, encounters have to be opened and closed, questions asked and answered, requests made and granted or denied, assessments offered and seconded, and so forth. The organization of talk provides the formal resources in a manner that is sensitive to [local circumstances]. (Zimmerman & Boden, 1991, p. 8)
\end{quote}

Or as one broker explained:

\begin{quote}
Sometimes you can gauge how [investors] feel from the questions they are asking—whether they are skeptical, whether they are committed to a certain idea, whether they agree or disagree with you. So you learn to read from their conversation, and their tone of voice, how positive they are about an idea.
\end{quote}

In stark contrast to the above description, a different kind of material information concentrates among brokers in brokerage firms. This is “order flow” information, also known as “market flows” or “net flows.” This is information exposing the behavior, identities and/or motivation of past, present, or prospective trades in the market (Harris 2003). Brokers gain this information by speaking with their clients, observing their clients’ orders, by exchanging information with fellow brokers in the brokerage firm, and by tapping into their social networks of competing brokers, particularly brokers with whom they share multiplex ties, such as former work colleagues, co-ethnics, or school or neighborhood ties (Smith 1999).

Investors value “order flow” information but are unable to directly observe it. All of the investors interviewed explained that they have their brokers report order flows. This is a “daily routine” because “it is always important to know what other people are doing.” Another investor described this procedure as a “check in the market” and that “you test the market”
before executing a trade. As a third investor summarized, “if I like the stock, I’ll get the order flow.”

In brief, investors in asset management firms use their networks of brokers to obtain two types of material information: “fundamental” information regarding corporations listed on the stock market, and material identity information regarding their competitors’ trading behavior, termed “order flow.” Brokers in brokerage firms obtain this valued material identity information by observing their clients, speaking with other brokers in their brokerage firm, and by obtaining information from their own social networks in competing brokerage firms.

Performing anonymity: Three strategies information-poor brokers employ to gift information to information-rich investors

As illustrated in Figure 1, a market’s degree of anonymity is partly a function of market engineer’s design. However, it is also a function of market participants’ behavior; do they preserve anonymity by veiling identity information, or do they erode anonymity by sharing identity information? In brokered financial markets, brokers are information-rich (relative to professional investors) in “order flow” information—the identities and/or motivation of past, present, or prospective trades in the market. Under what circumstances do brokers share this order flow information with professional investors?

Across interviews with professional investors and brokers, I induced three strategies that brokers use to gift order flow information and to manage the demands by investors for this information. These strategies are to form transparent relationships, masked relationships, or for brokers to translate material identity information into another form of information. These strategies significantly shape the maintenance or erosion of anonymity in the market.

Performing transparent relationships

A transparent broker is an intermediary who behaves transparently to all clients, and whose behavior is typically tied to her means of payment (c.f., Finlay and Coverdill 2000; Pollock, Porac
and Wade 2004). Transparent brokers provide each client with material information; however, they call their best clients first, and identity information is kept strictly confidential. The task of a transparent broker is not merely to constrain one’s range of behavior so as to perform transparently, but additionally, to successfully communicate in all of the broker’s interactions with others that they are in fact and not merely in appearance a transparent broker (Goffman 1959).

Transparent brokers demonstrate their excellence to investors by providing superior service in execution. In the Malaysian stock market, the primary purpose of asset management firms having a panel of brokerage firms (rather than to send their orders through a single brokerage firm) is to conceal one’s pattern of trading from competitors. Spreading their trades across multiple brokers accomplishes this in two ways. First, if an asset management firm sent all of their orders through a single brokerage firm, in some circumstances competitors would be able to accurately infer an asset management firm’s pattern of trading or portfolio by observing and tracking the firm’s broker’s publicly disclosed trades. Second, by spreading trade packages across multiple brokers, asset management firms can obscure their motivations and pattern of trading from these brokers, and thereby diminish the potential of information leakage from these brokers to competitors. As one investor explained,

[We don’t give] it all to the broker, if we don’t trust them totally. Brokers being brokers, they are sales driven. What we’d do is just give them a quarter or so first [of a trade package] without mentioning the whole amount. Because once you give a broker a whole amount, they can manipulate the market accordingly.

Investors spreading their order flow across multiple transparent brokers expect that their order flow will remain confidential and that brokers will provide them with the best execution (i.e., to time the order so as to trade at the best possible price). Investors ensure both goals by cultivating an arm’s length relationship with these brokers and by attempting to provide little or no material information to them. Investors also systematically audit their brokerage firms to grade the quality of the execution, and thereby guard against the possibility of brokers either
trading in front of their clients (“front running”) or harming their execution by systematically executing their orders after those of competing clients (Harris 2003: 160-61). Brokers in transparent relationships demonstrate quality service by providing superior execution.

When clients request order flow information, transparent brokers provide **categorical net flow information**. Categorical net flow information is information regarding aggregate net buying and selling of a particular corporation’s stock, sometimes disaggregated into a social category. For example, an investor was asked if he had an image of his competitor’s trading strategy. In reply, he explained that he didn’t know what specific competitors did, but on a daily basis he received information of net trading disaggregated into two social categories of traders, “foreign” and “local”: “What we normally receive from [our brokers] is whether they see foreign buying coming into the market in a big way. We check their flows for the day. They can tell us whether there are net buyers or net sellers and whether they are foreign or local.”

Categorical net flow information indicates the direction and strength of net trading either in the buy or sell direction. This aggregate flow information is particularly useful if there are significantly more offers to buy than to sell, or vice versa, or if there is extraordinary volume of trading. When brokers provide categorical net flow information to investors, they protect all clients equally by almost wholly veiling the identities of competitors, while providing investors with information to aid in determining when to time the execution of an order in an often illiquid market.

For brokers in transparent relationships with investors, categorical net flow information acts as a signal to his or her client that the broker seeks to maintain the confidentiality of all order flow he or she receives from clients. Additionally, categorical net flow information is content that they can use to fill telephone time during the morning call. Additional content that brokers provide investors include their firm’s evaluation and prediction regarding particular corporations listed on the stock market (the “house view”), the broker’s own “view,” or brokers may use their personal charisma to fill telephone time with novel but typically immaterial information regarding politics, sports, or foreign markets. Although investors do not
particularly view these types of information as material, these topics succeed in allowing brokers to initiate calls and fill telephone time. None of these conversational topics contain identity information that erodes the anonymity of the market by exposing competitors’ order flow.

In a transparent relationship, both parties practice reciprocity to reinstantiate their ties. Investors seek to veil their own trading behavior from their brokers and are strategic with revealing their interpretations of market events. Brokers, too, strategically seek to veil material information between clients. A transparent relationship is one strategic outcome arrived at by brokers and professional investors to negotiate their conflicting interests.

Performing masked relationships

The ethnographic interviews with investors and brokers also revealed a deviation from the transparent relationships that some interviewees referred to as “value-added” service, and which I refer to as masked relationships. When describing investor-broker relationships, both parties use the term “value-added” to describe information given to one person rather than all persons. For example, referring to his knowledge of competitors in the market, as one broker explained, “I need to talk to a lot of [investors] and other brokers to find out who is buying and selling. That’s what [investors] appreciate. The sheer market flow.” Later in the interview, he specified that if he discovers that an investor has a protracted trading package he would call his value-added investors to reveal this current and on-going trading pattern in the market.

“Value-added” implies a non-transparent privileging of a relationship above others. Investors in masked relationships expect their brokers to enter a confederacy of opacity in which the investor’s own trading behavior and motivations are hidden. For example, Rosli, a broker, described how difficult it was to gain the “trust” of new client investors; implicitly, to gain that trust, she privileged those relationships at the non-transparent sacrifice of others’ information. Rosli says it took her six months to
break into the network. It wasn’t easy . . . You have to gain their trust . . .

Whatever information I have, I share with them. And at the same time, I protect their interests as well. I do not share whatever information they have given me to others . . . We have to be very, very, very careful.

(My emphasis in bold italics).

As a consequence, confidential information regarding competitors seeps through value-added relationships, often via common brokers or brokerage firms. In illiquid markets, such information is ever-present because large trade packages are typically protracted over weeks or months (Pitluck 2011). As one investor explained, “And so these brokers would call their value-added [investors] who talk to their value-added brokers and the rest of the market would know... Dissemination of information is very quick. So that’s how the market knows.”

In contrast to providing categorical net flows to their clients, brokers in masked relationships provide **figurative disaggregated flows**. These brokers pierce the normative anonymity of the market to reveal figures with specific knowledge, patterns of behavior, and motivations, identified by social categories or pseudonyms. Such information can be useful for assisting investors not only in their timing but also in their decision-making process of what to buy or sell.

In the Malaysian market, the four most common social categories mentioned in investors’ and brokers’ narratives include “institutional” investors (other professional investors), “retail” investors (non-professional investors), “foreigners” (professional investors based in Singapore, Hong Kong, or a global financial capital such as London or New York) and “government” or “government-backed” funds (this broad category includes Malaysian federal and state government bodies as well as large funds servicing key government constituencies). In my interviewees’ partially shared culture, each of these categorical figures have distinctive trading behaviors, motivations, and in some contexts, distinctive perspectives of events (c.f., Preda 2005, 2013). Brokers are therefore able to communicate information useful to their clients
about competing investors in the market while at the same time partially shielding their individual identities behind a partially disaggregated social category of investor.

Alternatively, brokers may describe to an investor specific figures who have traded the stock in the past or who have a pending or prospective interest in the stock. As an investor explained:

> It’s a daily routine for us to check who is on the other side. It’s always important [to know] what the other people are doing. What we do is, we require the brokers to provide us with the market flow every morning, you know, for any particular stock that [their clients are] buying or selling. We get from a good number of brokers. But they won’t be willing to say [exactly] who the clients are.

These figures are instead identified by a pseudonym, frequently a social category qualified with additional descriptive adjectives. For example, brokers may describe a figure as based in Singapore, or they may additionally indicate the rough size of the competing asset management firm. Such information regarding specific figures with a historic, pending, or prospective interest in a trade is highly valued by many investors and attributed to brokers in masked relationships.

Brokers revealing figurative disaggregated flows has also been independently established in the global hedge fund industry by Simon, et al. (forthcoming). Although the authors found that brokers sought to maintain the anonymity of their current and prospective clients, they also uncovered prosaic practices of brokers revealing identity information. For example, competitors were identified as “traditional asset management (‘real money’), corporations, hedge funds (‘fast money’/’smart money’) and central banks” (2013:12). In at least one case, the authors documented a broker who provided a hedge fund manager interested in buying Telefónica stock with (in the words of the hedge fund manager) “a good understanding of the intentions of major holders in the stock.” In a separate interview, the broker explained that he or she had provided “detailed, up to the minute information about the activity of the Telefónica stock” (p. 12).
Note that this is not certain knowledge. Brokers often infer causal motivation from their clients. Nevertheless, these violations of confidentiality by describing silhouettes in the market provide key information for investors’ cognition and execution. When investors demand and brokers supply information regarding specific competitors in the market, both parties in contribute to eroding the market’s anonymity.

**Subverting anonymity by transforming identity information**

A third strategic response by brokers to investors’ pressure to reveal information regarding their competitors is to translate investors’ confidential order flow information into information regarding the stock’s “fundamentals.” “Fundamental information” is socially constructed as “public information,” and therefore provides brokers a rhetorical device to share information that ethically or legally a broker may not otherwise permit themselves. Among the brokers I interviewed, Manis was unusual in that she had internalized a vivid ethical code of what information she could share with clients and what information she would not. Note that for Manis, exposing identity information is strictly forbidden, but since “fundamental information” about a company’s “merits” is shareable, she consciously, strategically and routinely seeks to communicate order flow information in the rhetoric of fundamental information:

I would never say, ‘EPF is buying this, it’s going to move up the share price so you should buy’—No, no no….I just think that would be wrong. I really think that would be unethical….I mean, to a certain extent, that’s like being privy to inside information…. Unless—or put it this way: Let’s say the EPF is buying this stock…I might pick it up, have a look at it, and see what is it about this stock, what is interesting about this. I’ll find out what it is, and then I’ll have a good story about it and I’ll go out and say, ‘Look, there’s a good story here.’ But not based on what EPF or PNB or any of my clients are buying.

Other brokers reported using a similar strategy, although with reference to the constraints of securities regulation or one’s superior’s monitoring rather than professional ethics. For
example, in an interview with a broker who specialized in brokering for large asset management firms, Boris explained that he doesn’t tell clients,

Tabung Haji or Kedah state government is buying Maybank. No. I say, ‘the local funds are also buying some finance stocks, but now they are shifting to construction stocks or to plantation because the palm oil prices went up. So, they are moving their positions so you might want to take note.’ You know, that kind of VERY–some ideas there...Yeah. I don’t say, ‘Oh, EPF is buying this. [Maybank] is selling that.’ No. I’d get caught.

Manis and Boris may observe an asset management firm making a salient or lengthy trade, and rather than report this disaggregated order flow to their clients, they infer a plausible story of why this company at this price should be bought or sold, and thus transform order flow information into fundamental information. Such translation can preserve the market’s anonymity while nevertheless disseminating confidential material information from one client to another. By translating illicit identity information into licit fundamental information, brokers preserve the market’s anonymity while nevertheless subverting financial engineers’ intent in creating a normatively anonymous market.

**Conclusion**

In academic finance models, the anonymity of markets is typically assumed to be successful (Raines and Leathers 2000). In research where this assumption is relaxed, such as the theoretical and empirical literatures on “herding” in which investors imitate previous investors, there is some empirical confusion as to what information professional investors have and how they obtain it (e.g., Bikhchandani and Sharma 2001). There are also contradictory findings in the ethnographic literature on the degree of anonymity in financial markets (Knorr Cetina and Bruegger 2002a: 167-169; Zaloom 2003, 2006; Knorr Cetina 2005: 47; Preda 2009, 2013; Pitluck 2011; Simon, et al. forth; Pitluck 2014). This article reconciles these contradictory findings and clarifies how and why professional investors obtain information regarding their competitors’
trades. Additionally, drawing on ethnographic data, this article advances our understanding of why (and under what circumstances) brokers choose to share information with investors regarding competing investors’ trades, and thereby support or erode a market’s anonymity.

This article argues that brokers are in constant need of information so as to initiate conversations with clients that may lead to a brokered trade. However, with respect to acquiring so-called “fundamental” information regarding listed corporations, brokers are in an information-poor structural location while professional investors are in an information-rich structural location. Brokers are therefore in a material and emotional dilemma of needing to acquire an alternative form of material information that they can gift to professional investors.

One resolution to this dilemma is for brokers to provide fund managers with “order flow” information about historic, pending, or prospective trades by competing investors. Brokers are in an information-rich structural location to provide such order flow information because they execute investors’ trades and are in near-daily communication with them. Such information is valued by professional investors for a variety of reasons. First, such information allows investors to “tag” the trades of competitors and thereby assist investors in pragmatically understanding the market (Preda 2013). Second, such information improves the execution of investors’ trades so that they can time their trades to coincide with liquid times (Pitluck 2011). Third, such information can potentially allow investors to reverse-engineer their competitors’ trades, and thereby allow them to imitate the trades of the higher-skilled or better-informed (although I am presently skeptical that this is a substantively important and common reason for desiring order flow; for details, see Pitluck 2014).

In my ethnographic interviews with professional investors and brokers, I induced three performances that brokers employ to manage investors’ expectations and to provide potentially illicit order flow information. Each partly erodes transaction-level and market-level anonymity while simultaneously partially supporting anonymity. The first performance is the transparent relationship. Such brokers transparently privilege their best clients, but they protect the identities of all clients by emphasizing execution and providing minimally useful
categorical net order flow information. While such brokers literally erode the market’s anonymity by tagging and typifying order flow (Preda 2013), they nevertheless support the market’s anonymity by preserving the confidentiality of their clients’ trades.

The second performance is the masked relationship. Such brokers non-transparently privilege some favored clients over other clients by selectively revealing figurative disaggregated order flow information, and thereby compromising the confidentiality of some clients’ trades. Brokers in masked relationships provide privileged and early access to their “value-added investors,” and these investors can make information requests from their brokers while expecting their brokers to enter a confederacy of opacity with regard to the investor’s own trading behavior and knowledge. The gifting of such information is merely one form of reciprocal exchange to renew the parties’ ties to one another.

When brokers share the order flow, brokers are supporting the anonymity of the market to the degree that competing investors’ identities are hidden within the reported aggregation of order flow, and to the degree that the motivations of competitors are merely imputed rather than reported to investors. However, as brokers’ descriptions of their order flow narrows to a smaller range of potential competitors, and as brokers create stories of figures in the market that report specific competitor’s histories, motivations, and/or intentions, these behaviors in the aggregate erode the anonymity of the stock market. Although such practices directly compromise the market’s anonymity, brokers in masked relationships nevertheless support anonymity insofar as the figures in the order flow are not directly indexed with specific investors, and insofar as identities are inferred rather than reported.

The third performance is subversive insofar as investors’ confidentiality is violated while the appearance of anonymity is preserved. Brokers learn, infer, and reverse-engineer an investor’s motivations and/or information from a trade (order flow information) and can translate this into a “story” about a buy or sell recommendation for a stock (fundamental information). By sharing such narratives with competing investors, the broker gains the opportunity to gift scarce fundamental information and perform the role of preserving anonymity, when in fact
the gifting of this fundamental information is violating the confidentiality of an anonymized competing investor. Laws and regulations regarding brokers’ confidentiality of their clients’ trades are therefore easily eluded by transforming illicit forms of order flow information into licit fundamental information.

There are two strategic implications of these findings for policy makers and regulators of normatively anonymous markets. The first strategy is to increase surveillance and mechanization of brokers’ work so as to promote a normatively anonymous market, while the second is to acknowledge that market anonymity is an impractical façade, and to therefore revise insider trading regulations.

Regulators attracted to the first strategy could require professional investors to use electronic rather than human brokers, and to create stricter communication protocols between professional investors and those outside of the trading team. However, one should proceed cautiously with such a strategy; previous cases of replacing human floor traders with computer matching algorithms demonstrate that there are likely to be a number of unintended negative consequences of this proposal (Abolafia 1996; Government Office for Science 2012; MacKenzie et al 2012).

Alternatively, regulators may opt to abandon the normative goal of anonymous trading and instead promote an explicitly laissez-faire trading environment. Advocates desiring to craft such regulation could learn from ongoing debates regarding where to draw legal and moral distinctions between acceptable and illicit insider trading in financial markets (e.g., Martin and Peterson 1991; Werhane 1991; Strudler and Orts 1999). For example, rather than interpreting brokers gifting identity information as theft or the misappropriation of material nonpublic information, regulators could permit brokers to share (and for professional investors to receive) any nonpublic identity information that brokers obtain “through their own effort, skill, intelligence—or pure luck” (Strudler and Orts 1999-2000:438). Finally, the most attractive response for policy makers and regulators may be between these two diametric strategies; they may simply choose to muddle the issue by simultaneously pursuing both strategies.
For scholars of financial markets, this article suggests that even well-regulated markets are semi-anonymous spaces in which identity information regarding historic, pending, and prospective trades are shared by brokers with investors on a daily basis. This finding provides an additional explanation for how professional investors can imitate one another (“herding”) as well as why subpopulations of investors often trade so similarly to one another. Apparently, financial markets are not only more social spaces than commonly understood but are also less anonymous spaces than commonly understood.

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Figure 1

In electronic stock exchanges, order flow is typically anonymized by passing through two intermediating social institutions: the broker and the electronic stock exchange matching mechanism.