

Why national [stock exchanges](#) have no place in tomorrow's world.

There is an unstoppable drive to create a single pan-European exchange, following the London-Frankfurt alliance last July, and deals by Paris, Madrid, Brussels, Milan, Amsterdam, Zurich, Luxembourg, Copenhagen, Stockholm and Vienna. One virtual market needs only one computer server. New York, London, Frankfurt, Hong Kong and Tokyo are also discussing cooperation.

What will the future hold?

Time Magazine feature by Dr Patrick Dixon 4 April 1999.

Archive: a lot has happened since but pattern holds - see update below

Who needs old stock markets anyway? In 1996, Spring Street Brewing Company raised \$1.6 million directly from the Internet. Last year Wit Capital sold initial public offerings in 41 companies via its website. This follows spectacular growth in online investment with an estimated 25% of trades in New York already conducted on the Net by more than 5 million people. Charles Schwab's Net brokerage grew 41% last quarter and has begun its own virtual share issues.

Andy Klein, Wit Capital's founder and chief strategist, plans to launch the world's first virtual stock exchange in June, built for \$11 million, to trade a limited range of blue chip U.S. stocks out of hours, in real time, with changing prices. Stocks will be quoted initially at closing prices and allowed to float. Wit Capital will list not only high-volume stocks, but also stocks for which price-sensitive information has been released after New York has closed. As confidence and liquidity grow, the number of stocks will increase. By 2003 there could be 20 million online investors in Klein's market-and plenty of competitors.

Others such as E*Trade are likely to forge ahead aggressively to create their own virtual exchanges, in new alliances with financial institutions. Online robots and other technologies will enable instant price comparisons, effectively creating a larger single trading area. The key is trust, based on evidence of sound regulation and control. But these companies are off to a flying start because they have already earned solid credibility with an important client group.

So, very soon, investors will be trading 24 hours a day, every day of the year, every major company quoted in New York. That will include a growing number of non-U.S. stocks because globalized companies have left national exchanges behind and want multiple listings. Within a year, new links are likely between major online brokers in America and Europe, allowing small investors in one country or region to trade virtually in another under existing regulations. That will mean Europeans can also trade 24 hours in U.S. listings.

As a next step, Wit Capital is already planning an out-of-hours virtual exchange for Europe. When the same happens in the Far East, the Web will have created its own global exchange, trading continuously. It's inconceivable that national exchanges as we know them will live beyond 2010. Once Europe begins to trade on one exchange, it will only take one other major player to announce a link to start a chain reaction-and if that is too slow, a network of old-fashioned exchanges will be beaten by the Web.

Every step toward virtual trading has led to greater volatility with faster global trades on ever lower margins. Creating stability in this new global exchange will be a major challenge. Some exchanges will stay outside in the cold, but with an uncertain future.

But what happens to banks and brokers in a virtual world? Many banks are in serious trouble as it is, with competitors ranging from food stores to airlines. Exchanges serve their members, but members are banks and most banks are short-sighted dinosaurs. These exchanges are caught in a late 20th century time warp. Take the issue of trading hours: the London Stock Exchange moved recently to reduce opening time in order to increase liquidity. But an intelligent exchange would be opened or closed by robots according to how many are banging on the door. For individual investors, trading online should enable anyone to buy and sell directly. But members insist that trades be done by members, who make a profit for just transmitting electronic pulses. Any stock market could create its own Web link, replicating processes inside bank computers. But their hands are tied. Allowing Net access would place them in direct competition with their own members.

The industry is in for a huge shakeup. With commission rates falling to zero, brokers won't make a living except as financial advisers. But most personal investors will object to handing back every penny they just saved in commissions. The result will be more job losses, made worse by the improving quality of free investor advice on the Web, and skepticism about analysts' ability to outguess the market.

Communities of financial expertise will survive in places like London, Frankfurt and New York, even if regional or global servers are based elsewhere, because top people often need more than money to relocate and national exchanges have attracted relatively immobile but skilled labor forces.

But that geographical bias will not last forever. Global trading around the clock will soon be a reality. We must take hold of the future, or the future will take hold of us.

Update 2000

What more can one say - a stampede continues across all European exchanges to form new alliances while new entrants continue to change the landscape themselves. The collapse of London and Frankfurt negotiations in September 2000 makes the whole process even more absurd since all the exchanges are being overtaken by other events.