A self-confessed stock nerd recommends that investors swallow the NEO Exchange red pill

I am a self-confessed stock nerd. Digging through a company's quarterly MD&A, Annual Information Form and corporate presentation entertain me, at least when I'm not fishing, playing hockey or drinking beer. The latest example of this geekiness was when I was recently asked if I had heard about the NEO Exchange. I'm guessing the person who asked was anticipating that, like most people they had brought it up with before, I would have no idea and they would go on to give me some quick insight into this unique, but not so new Canadian Tier 1 stock exchange. Instead, their question may have backfired, as I went on to talk about the first stocks I bought, things I liked about the exchange and other innovations I found interesting, which may or may not interest others. At that point, the tables were turned on me and I was challenged to ask everyone I knew (and yes I have plenty of friends) if they had heard of the NEO Exchange. I was both surprised and not surprised at how little virtually all my acquaintances knew about this subject, so that has inspired today's article.

In case you are wondering, my first exposure to the Aequitas NEO Exchange, which was their name back in 2018 (fortunately they rebranded to something a little easier to remember and spell), was a new issue as part of an RTO transaction whereby Ethereum Capital Inc. (NEO: ETHC) became public and the new issuer moved over from the TSX Venture. That was February 2018 and my exposure and interest in the NEO Exchange were born. Sadly, I didn't have the patience to turn that particular investment into the healthy gain it would be if I still held it today. Instead, I eventually booked a 44% loss and moved on. Nevertheless, I'm very happy that this transaction introduced me to this exchange and I've watched it grow ever since. Granted the exchange itself was launched in 2015, but until 2018 it was mostly ETF offerings with ETHC and Halo Collective Inc. (NEO: HALO) being some of the first actual stock listings. I know that because I also owned HALO and I did make money on that trade.

But enough about my NEO trading history, you need to know why you should have a look at the NEO Exchange today. For starters, it's the second Tier 1 exchange in Canada, along with the TSX, which means that NEO-listed securities meet stringent, disclosure-based listing requirements you can trust. This gives potential qualified Canadian issuers a legitimate option to list with an alternative, much like U.S. equity issuers can choose between the NYSE and Nasdaq. **Choice is almost always a good thing.**

Then there are NEO's founding principles of fairness, liquidity, efficiency and service, where NEO is making waves as a bold and disruptive capital markets technology firm. A great example of fairness is the NEO speed bump and unique order-matching technology that give long-term investors a fair chance to participate in trading without being continuously outpaced by predatory High-Frequency Trading (HFT). It also rejects any traders willing to pay fees for additional trading advantages, including co-located trading technology and access to faster market data. You may recall the Robinhood scandal about selling customers order flow. All examples of the kind of questionable behavior that NEO is trying to protect investors from.

However, what really got my attention the first time I went to the website to get a quote on ETHC was the fact that it was real-time data AND there was depth of market information. For frugal, do it yourself traders this is the holy grail of information. Both of these data sets typically cost a reasonable amount of money for subscriptions or access. I refuse to do a cost/benefit analysis on what having real time data may or may not have cost me over the years because it would probably highlight that I should have broken out my wallet and paid the fees. But with the NEO Exchange website, I can stick to my frugal trading ways and have all the information I want at my fingertips.

Then there is the newest innovation that has also garnered my interest – Canadian Depositary Receipts (CDRs). You may or may not be familiar with American Depositary Receipts (ADR). An ADR is a negotiable certificate issued by a U.S. depositary bank representing a specified number of shares, typically one share, of a foreign company’s stock. The ADR trades on U.S. stock markets like any domestic share. It offers investors a way to purchase stock in overseas companies that would not be available otherwise. Being the disruptive innovator they are, the NEO Exchange has fashioned (along with their partner CIBC) a Canadian equivalent. The first listing is a company you may have heard of before – Amazon. In this example, it is a fractional share (so you don’t have to cough up US$3,375/share) and exposure to U.S. Dollar currency risk is minimized through built-in currency hedging, allowing you to own the company, not the currency. It’s 1/200 of an Amazon share and it closed yesterday at C$21.20. So almost no currency risk and a bite sized version….let me get out my list of U.S. stocks I want CDRs done for.

The NEO Exchange is not publicly listed, so there is no investment thesis here. Just some insight into an exchange I think everyone, even non-stock nerds, should be aware of. So take the red pill and get on with your journey (there is no way I could spend a whole article talking about NEO and not eventually make a reference to “The Matrix”).