

AI-03189 Market Actions Who Executes

Owner	Ⓒ Rigel Arcayan
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I'm trying to understand market movement, who moves market up/down? I'm guessing Institutions, me (retail investors). Anyone else? Who are the participants?

That's a great question, and you've identified the two main categories of investors. Market movement—the shifting of prices up and down—is primarily driven by the balance of **supply and demand** for a security, which is influenced by the collective actions of a wide range of participants.¹

Here are the key participants and forces that move the market:

1. Investor Participants

These are the direct buyers and sellers of assets, categorized by size and structure:

A. Institutional Investors (The Biggest Movers)

These entities manage massive pools of capital and generally have the largest impact on market moves due to the sheer size of their trades.²

- **Mutual Funds and ETFs (Exchange-Traded Funds):** They collect money from many retail investors and invest it according to a specific strategy.³ When money flows into or out of these funds, the managers have to buy or sell the underlying stocks, causing price movements.
- **Pension Funds:** Manage the retirement savings for millions of workers.⁴ They are long-term investors but their large transactions can move the market, especially when rebalancing their portfolios.⁵

- **Hedge Funds:** Privately managed investment funds that use complex strategies (including short-selling, leverage, and derivatives).⁶ Their high-volume, often short-term trading can create significant volatility and sharp moves.
- **Insurance Companies:** Invest premium money to ensure they can pay out claims.⁷ They tend to hold large, stable, and long-term investments.
- **Sovereign Wealth Funds:** State-owned investment funds that invest a country's surplus reserves.⁸

B. Retail Investors (You and Other Individuals)

- **Individual Traders and Investors:** This group, including yourself, has a smaller impact individually.⁹ However, with the rise of commission-free online trading, the **collective action** of millions of retail investors can significantly impact the price of specific stocks, especially smaller ones or those experiencing "meme stock" rallies.¹⁰

C. Corporations/Issuers

- **Companies Themselves:** Companies can influence the market by issuing new stock (**increasing supply**, which can push the price down) or by engaging in **stock buybacks** (repurchasing their own shares, which **reduces supply** and generally pushes the price up).

2. Market Facilitators and Regulators

These groups don't invest for profit in the same way, but their actions are crucial to market function and stability.

Participant	Role in Market Movement
Central Banks (e.g., The U.S. Federal Reserve)	The ultimate shaper of market environment. They set interest rates (Monetary Policy). Higher rates typically cool the economy and markets (downward pressure), while lower rates stimulate the economy (upward pressure).
Market Makers	They provide liquidity by continuously standing ready to buy and sell specific securities. They profit from the <i>bid-</i>

	<i>ask spread</i> (the difference between the buy and sell price). Their activity ensures trades happen smoothly.
Brokers & Dealers	Facilitate trades for clients. Their trading volume contributes to overall market activity.
Government/Regulators	Through new laws, taxes, or policies, governments can directly or indirectly influence investor sentiment and corporate profitability, which then affects stock prices.

3. Factors and Forces (The "Why")

Ultimately, all market participants react to these underlying factors:

- **Economic Data:** News like unemployment rates, inflation reports, GDP growth, and consumer confidence often cause immediate, strong market reactions as participants adjust their expectations for the economy.¹¹
- **Company Performance:** Quarterly earnings reports, product news, mergers, and leadership changes directly affect the perceived value of an individual company, driving its stock price up or down.¹²
- **Investor Sentiment:** This is the collective mood or attitude of all investors. When sentiment is overwhelmingly positive ("greed"), it can lead to a **bull market** (upward trend).¹³ When it's overwhelmingly negative ("fear"), it can lead to a **bear market** (downward trend).
- **Geopolitical Events:** Wars, political crises, or new international trade agreements can cause widespread uncertainty, leading to significant market volatility.¹⁴
- **Algorithmic/High-Frequency Trading (HFT):** Computer programs execute trades based on complex algorithms at extremely high speeds.¹⁵ These programs account for a massive volume of trades and can amplify small moves or cause "flash crashes" due to their rapid, automated reactions.

Summary of Who Moves the Needle

While retail investors (you) are a part of the market, **Institutional Investors** (mutual funds, hedge funds, pension funds) are generally responsible for the largest, most significant, and sustained moves in the broad market due to the enormous amount

of capital they deploy. However, the actions of the **Central Bank** setting interest rates and controlling the money supply often creates the *environment* that determines the long-term direction.

Would you like to learn more about the difference between **investors** (long-term focus) and **speculators** (short-term focus) in the market?

Estimate the percentage of market movers?

That is a complex question because market movement is driven by two main things: the **total value of assets held** (the 'pool' of money) and the **daily volume of trades** (the 'activity' that moves prices).

Here is an estimated breakdown based on recent market data for U.S. equities, focusing on both the **capital held** and the **daily trading volume**.

Estimated Breakdown of Market Participants (U.S. Equities)

1. By Total Capital Held (The "Pool" of Money)

This reflects the long-term, underlying ownership of the stock market.

Institutional investors dominate ownership.

Participant Type	Estimated % of Total Equity Value (AUM)	Influence on Long-Term Price
Institutional Investors	70% - 85%	Highest. Their long-term buying/selling sets the valuation floor/ceiling.
— <i>Mutual Funds & ETFs</i>	<i>40% - 50%</i>	<i>Sustained, directional moves (flows in/out of funds).</i>
— <i>Pension Funds, Insurers, SWFs</i>	<i>20% - 35%</i>	<i>Stable, long-term ownership and large block trades.</i>
Retail Investors (You)	15% - 30%	Moderate. Significant collective impact, especially on specific stocks.
Corporations (Treasury Stock)	~5% - 10%	Moderate. Buybacks reduce supply, providing structural support.

2. By Daily Trading Volume (The "Activity" that Moves Prices)

This reflects the actual buying and selling that happens in a single day, which is what creates the *moment-to-moment volatility* and most of the price changes.

Participant Type / Strategy	Estimated % of Daily U.S. Equity Volume	Influence on Short-Term Price
Algorithmic & HFT Firms	~50% - 65%	Highest. Responsible for speed and short-term liquidity/volatility.
— (Often Market Makers / Proprietary Traders)	(This volume is highly automated)	<i>These are trades, not capital pools.</i>
Institutional Investor Orders	~15% - 30%	High. Large block orders are often broken up and executed algorithmically.
Retail Investor Orders	~15% - 25%	Growing. Can create sharp, volatile moves in specific stocks (e.g., meme stocks).

Key Takeaways from the Data:

- HFT & Algorithms Rule Volume:** A massive portion of daily trading volume (up to 65%) is executed by sophisticated computer programs (High-Frequency Trading, or HFT). These trades are usually short-lived and exist to capture tiny price discrepancies or provide liquidity, but they are the engine of daily activity.
- Institutions Own the Market:** Institutional investors may only account for 15-30% of daily *transactions*, but they own 70-85% of the total value. When an institution needs to buy or sell, it moves the market significantly, even if the trade itself is broken up into many smaller, automated pieces.
- Retail is Significant, but Variable:** Retail investor volume has increased dramatically since 2020. While historically below 10%, it now frequently averages in the **15% to 25%** range of daily volume, making it a critical force, especially in individual stock stories.

In short, **Institutional Capital** sets the long-term direction, **HFT/Algorithms** provide the minute-by-minute movement, and **Retail Investors** provide bursts of concentrated force on specific stocks.

Would you like to explore how the **Federal Reserve's interest rate policy** acts as a powerful external mover that influences *all* of these participants?