



What All Canadians Should Know About Stock Volume in a Recession

Description

Tax-Free Savings Account and Registered Retirement Savings Plan investors can easily understand the relationship between trading volume and stock price. Primary supply and demand mechanisms apply even to the pricing of shares on a stock exchange.

This article looks at **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) trading volume as an example. BlackBerry trading volume has become more active since announcing positive earnings on September 24.

Investors exchanged over nine million shares the day of earnings and almost six million the day after — substantially more than the average 1.6 million shares usually traded.

The stock has had some exciting news to report to shareholders, and many are becoming more optimistic about this stock's future earnings prospects. As of Friday, BlackBerry is the most highly traded technology stock in Canada.

In 20 years, BlackBerry has gone from a smartphone company to a cybersecurity firm — sparking more investor attention for this largely ignored technology company.

BlackBerry history

BlackBerry stock had its heyday when smartphones first became popular. Leading up to and after the first **Apple** iPhone release, the stock exploded to a whopping \$150 per share by August 2008.

This bubble quickly evaporated when it became clear to shareholders that BlackBerry would never be able to compete with Apple's iPhone. The stock plummeted to less than \$50 per share between August and December 2008.

Today, BlackBerry stock sells for \$7 per share at the time of writing.

BlackBerry buys into artificial intelligence

This year, BlackBerry bought Cylance Protect, a cybersecurity software driven by artificial intelligence and machine learning. Thus, the earnings call on September 24 was crucial for shareholders to determine whether BlackBerry would succeed in its transition to a profitable cybersecurity company.

Traders and analysts were more than positive about the 22% growth in revenue year over year. Trading volume on BlackBerry stock has consistently shown signs of renewed life since the results came in. Although only 1.6 million shares usually trade per day, BlackBerry stock hit 2.1 million shares as of Friday.

How supply and demand determine a stock's price

An increase in trading volume indicates a higher demand for the stock, while low volume typically means that the asset is less liquid.

If you remember from Econ 101, the quantity demanded is closely related to the price of the stock. Holding price and shares outstanding constant, if investors begin trading stocks more frequently, the price will naturally rise along with the increase in volume.

There is one caveat all Canadian investors should keep in mind: *reverse causality*. While an increase in quantity demanded at each price will naturally raise the price given the same supply, changes in price can also cause changes in quantity demanded.

When analyzing price and trading volume, Canadian shareholders should determine whether the higher amount exchanged resulted from a change in price, a change in demand, or a change in supply.

Foolish takeaway

Canadians can easily manage their retirement portfolios with only a basic knowledge of economics.

In the case of BlackBerry, if it can sustain this level of volume throughout the rest of October without falling below one million shares traded per day, the stock is almost certainly a buy.

If the stock sustains its higher trading volume, that will signal strong future price moves going into 2020.

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