An infamous technique market makers use called **fading the trend**, in which the market maker will sit at the inside ask and not budge. Obviously he has a ton of shares that he is **shorting**, and when traders realize this they **panic and sell back the shares at a lower price , at which time the market maker will cover.** It takes deep pockets and/or a ton of shares to be able to strong-arm a stock into submission and reverse the trend. Therefore, usually this lead market maker, known as the **ax** (a term that also will be explained in detail later), should be in your crosshairs **at all times**, and in cases where he is fading the trend, **it's best to follow his coattails and short at his level or Vie below.** If you are a hedge fund that needs shares, you will go to the ax market maker because of his skill in getting you the best price (often by, as it is said, shaking the trees and causing panic).
The difference between the men and the boys among market makers is the ability to collect a huge amount of shares with relatively little net change to the stock price, if not the opposite effect, in essence a risky game of liars poker. The Market Makers Market makers are allowed to adjust their prices at any time as many times as they want, because they take the risk on both sides of the trade on their bid and ask. Market makers also need to be able to gauge the conditions of the market and will often adjust their prices and keep **narrow spreads** to get a feel for the trend.
Target a specific market maker (usually an ax, e.g., GSCO) and follow him along to see how he reacts to sellers and buyers. Watch how he sets his bid and ask based on the trend and trades on time of sales. **Observe what he does during a string of straight sellers or buying panic.** See which market makers follow suit with his price posts. Develop a comfort level with this particular market maker and get comfortable in his trading patterns. Eventually, you want to be able to anticipate how he will react to trades and what he does with the trend. **It may take hours and even days of viewing these screens before you will learn to get into the rhythm of the dance of the Level 2**and most importantly develop the ability to anticipate what the market makers are doing. **Start off by watching your market maker around 9 a.m. EST every morning and see where he positions himself before the open.** Watch if he takes the bid higher to gap the stock up or lower to gap it down. Note if he is usually the first market maker to set a price (bid or ask) or the last. Most importantly, **always watch his spread (the difference between his bid and ask price).** See if your market maker loosens his spread At the 9:30 a.m. bell watch to see if he is sitting on the best bid and takes it higher for the first 2 minutes, only to step onto the best ask side and drive it lower. Keep note of the **intraday low and high for the stock and view where the market maker is in relation to them.**
GSCO is a magician that can pull the strings of fear and greed to move a stock in any direction he wants. When trading a stock in which GSCO is the ax, you are up against the very best in the world. Let's get a good grip on exactly what market makers do and how they make money. Traders often think a market maker can be making several points in a stock that may run 5 to 6 points on the day. The reality is that market makers **play the spreads**, and they play in volume to make their money. SO HOW DO MARKET MAKERS MAKE MONEY ON SPREADS? As a rule of thumb, market makers **buy on the bid and sell on the ask**. They have complete access to Instinct and various ECN books, as well as to **Level 3 data**, which tend oftentimes to __reveal the **real size** not chosen to be reflected on Nasdaq Level 2. Market makers also have a special program that is their respective brokerages' proprietary market maker software that calculates spreads for them. To make a long story short, market makers usually straddle a stock to build up inventory.

If a market maker feels bullish on the stock, he will build a larger long inventory, and vice versa for short inventory on a bearish stock. The goal of the game is to zero out the majority of inventory by the close with a profit, which is usually the average spread. Therefore, in essence, when a stop is strong, a market maker may buy more shares on the bid, but will also continue to short and fade the run in order to continue to build a bull straddle, and vice versa on weak stocks. Do market makers always make money? No, not always. If a market maker guesses wrong on the trend, he will be overloaded and put into a very tight situation where he will look to eat losses. However, <u>**don't feel too bad for the market makers**</u>. THE AX -- Aside from entry and exit, the other reason for using Nasdaq Level 2 is to <u>**find the ax.**</u> The ax market maker is the market maker you want to lean on. In other words, you want to use the <u>**ax as your stabilizer and foothold support.</u> **For example, if MSCO is the ax in AREA and he is on the inside bid eating shares, then you should make sure that when you enter a long position, MSCO is on the bid side holding a price level as your support. Vice versa if MSCO is holding the ask price level down firm. Then you want to make sure you can lean on MSCO on a short position. Should the ax step off his level,** <u>that should be your first clue to take a minimal stop loss before the stock reverses.</u>** Before going any further, let's take a good look at the key market makers.

<u>**GSCO (Goldman Sachs) Characteristics**</u> • Notorious for head fakes. Might sit on the best bid and instantly jump on the best ask as buyers slow down or even in the middle of a buying spree. • Rarely tips his hand. Tough to tell if GSCO is accumulating or dumping. However, during the opening bell, if there is a mad rush on a stock, GSCO will usually be real and usually be easy <u>When the action slows down, GSCO starts playing his games.</u> Often uses INCA to <u>**take the opposite side of a trade to panic shares his way.**</u> It appears that the GSCO market maker is fully aware of his birthright as the king of the Street and <u>anticipates having his actions carefully watched and followed by legions of traders.</u> This allows him to use INCA (Instinct) to take the other side of his trades. In this way, <u>**GSCO is actually his own decoy and picks up shares on INCA.**</u>

A trader must invest full days observing GSCO on the Level 2 screen. From 9 a.m. to 4 p.m. (EST), a trader needs to pick a stock that GSCO makes a market in and just **watch what GSCO does at <u>premarket, the open, mid-morning, lunch hour, mid-afternoon, and the close.</u>** See what GSCO does in relation to market indicators (Dow, Nasdaq, and S&P futures) throughout the day. Most importantly, **watch what happens to a stock's price when <u>GSCO jumps on inside ask (selling)</u> and <u>inside bid (buying).</u>** You will often notice a **pause on time of sales after GSCO jumps on the ask and then an onslaught of sellers.** This is the nail on the coffin that shows how much of a self-fulfilling prophecy GSCO's actions are. Every trader needs to find a foothold indicator in the potential direction of a stock, and that usually is the ax. GSCO is usually the ax in any stock he makes a market in. Watch GSCO's <u>rhythm and spread.</u> Our goal as traders is to <u>**seek the truth behind GSCO's actions.**</u> Does he have a large buyer or seller? Is he accumulating or selling or shorting? Is his position **real or fake?**

When observing GSCO, watch how long he will sit on the inside bid and ask as trades come in and he gets hit. Does he sit there and absorb all the sellers on the inside bid as all the other market makers jump to a lower price? If so, he could be accumulating shares to fill a block order, or he could be covering using INCA on the inside ask with larger size to panic traders. Does he sit there on the inside ask with a firm 10 size while a flurry of buys come in as all the other market makers jump to a higher price? If so, he could be fading the trading and selling or shorting for his own account to choke out the buyer who will inevitably end up selling back the shares at a lower price moments later. Or does GSCO step higher when he gets hit with a few 1000share trades on the ask? Or does GSCO step lower when he gets hit with a few 1000 sells? If so, then he is probably just catching orders and feeling out the market. When GSCO widens his spread, this is usually a good indicator of where GSCO thinks a stock is going. This usually happens on the open, when news hits throughout the day or when a big buyer or seller comes into the market. We have seen GSCO widen his spread to 3/4 to 1 point from his usual l/4 spread as he sits on the inside ask. Initially, this would tell us that GSCO is going out on a limb, predicting a decline in the price of the stock. Or he is setting up a head fake. Thus it is very important to see if INCA is the other side of the trade. If not, then he is probably for real. Unlike GSCO, smaller market makers often tip their hand and are less prone to playing games than a major market maker. Generally, when they are on the bid, they are usually buying, and when they are on the ask, they are usually selling. This is not to say they never head fake or try to jiggle traders out of their positions, but they are generally true to their positions.

MARKET MAKER TACTICS Market maker tactics are a hot topic with every day trader. There are also the easiest excuse and scapegoat for poor trading results. We can't tell you the numerous times that traders complained to us about the "blatant manipulation" by the market makers which caused their losses when, in reality, their losses were a direct result of poor trading and money management. Interpreting the true intentions of a market maker is a game of speculation at best. Remember, **market makers do not need even a single trade to change their bid or ask price higher or lower.** They are taking on the risk of making a market on both sides of the trade and will naturally seek to move their prices to where they feel there is the greatest security and profitability. Unlike the specialist system on the New York Stock Exchange and American Stock Exchange, **market makers on the Nasdaq can change their quotes at will.**

However, by only offering investors stock at the best bid and ask prices, we assume that is enough incentive for market makers to be competitive with their pricing and allow investors access to fairest possible price. What happens when the market makers for a particular stock all of a sudden decide to step off their current bids? **Panic!** For example, suppose XYZ is trading at 18'A x 1815/ie and suddenly the inside market drops to 173A x 177/s on very low volume. At this point, sellers show up and immediately start dumping their shares in a panic, thinking that there is a fundamental reason for the fall. "Perhaps it was a bad press release, a downgrade, or someone knows something I don't? Who knows, just dump it! Cut my losses! "**This is the attitude displayed by the panic sellers, causing the stock to tumble even lower.** Eventually, the market makers will **accumulate cheap shares on the way down and at the bottom and then sell some for a profit on the way up.** Does this sound familiar? The above mentioned example is termed by traders as a head fake.

Head fakes are actions by market makers to create an illusion of a short-term trend to induce panic (buying or selling) and usually result in a trend reversal, faking out the poor panic sellers or buyers of their shares. FINDING THE INITIAL TOP ON THE OPEN: Watch the time of sales and Level 2 screen on the open (9:30 a.m. EST). Highlight the ax and observe where he goes. As the stock continues to rise, you will notice all the market makers rapidly jumping to a higher bid. You might even notice the ax sitting on the best bid, driving it higher. Eventually, buying will subside, and the inside bid and ask spread will widen, signaling a pause. At this point, the trades on time of sales (usually all buyers) will slow down, and you will see a trade in between the bid and ask. This will signal a top. On the Level 2, you probably will see a market maker tighten the spread on the ask side (usually the ax). At this point, the ax may switch to the inside ask, and other market makers will join him, adding depth and support to the inside ask price. Time of sales should show straight sellers coming in at the bid, driving the stock price lower. More sellers come in to load the ask. Note: Market makers have full access to all limit books and Nasdaq Level 3 and order flow, they have more inside market information than the average day trader.

The term Island boys (ISLD boys) is used to describe the large sizes on ISLD that often flash on the bid and/or ask on Nasdaq Level 2. Sometimes the size is real and will hold firm when the ISLD boys get hit. Oftentimes, the sizes are simply flashed to nudge or add to the momentum (buying or selling) and disappear, a bluff. When the actual ISLD limit book is observed, the large block on Nasdaq Level 2 often shows up as a gang of smaller lots at a price level. This particular form of bluff was taken straight from the pages of the market makers, as they have been known to do the same thing with INCA. This is not to imply that all ISLD sizes are fake. When a large block is placed just right, it can add fuel to the existing momentum, or in many cases cause a momentum reversal, especially when the selling subsides and there is a pause as the gap gets tightened on the bid side in the case of a reversal off a short-term bottom. Once market makers and traders sense there is a real buyer, you will often see more bids, and before you can blink, the stock will reverse and retest. So one thing I've been seeing lately with GSCO on some stocks is them having different sizes on either the bid/ask side to hint to other MMs which direction they're trying to push the stock As in having a bracket of let's say 2.00-2.25 but having a bid for 5000 shares @ 2.00 and an ask for 2500 shares @ 2.25, logically telling us they're more interested in buying than selling

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Gainers are stocks that react positive to good news. Ideally, the stock is gapping up 10% or more with strong volume in premarket trading. You can trade gainers either long or short. It all depends on how strong the individual gainer is and even more important, how strong the whole gainer category is. I will stay with an example for longs here assuming that gainers are strong and make higher highs after the opening.

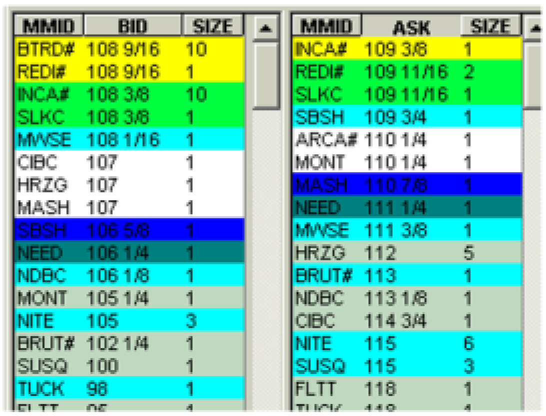
There are two entry approaches:

1. **Entry after the first uptick.**
2. **Entry after break of first range.**

Liquidity:

Liquidity is a very important aspect when it comes to order execution and safety.

Lets have a look at two examples:



MMID	BID	SIZE	MMID	ASK	SIZE
BTRD#	108 9/16	10	INCA#	109 3/8	1
REDI#	108 9/16	1	REDI#	109 11/16	2
INCA#	108 3/8	10	SLKC	109 11/16	1
SLKC	108 3/8	1	SBSH	109 3/4	1
MWSE	108 1/16	1	ARCA#	110 1/4	1
CIBC	107	1	MONT	110 1/4	1
HRZG	107	1	MASH	110 7/8	1
MASH	107	1	NEED	111 1/4	1
SBSH	106 5/8	1	MWSE	111 3/8	1
NEED	106 1/4	1	HRZG	112	5
NDBC	106 1/8	1	BRUT#	113	1
MONT	105 1/4	1	NDBC	113 1/8	1
NITE	105	3	CIBC	114 3/4	1
BRUT#	102 1/4	1	NITE	115	6
SUSQ	100	1	SUSQ	115	3
TUCK	98	1	FLTT	118	1

On the left side, you see a rather illiquid stock (ANEN). **There are very few market participants on every price level; these are called "thin levels". In addition, these levels are very jumpy themselves.** If you look at the ask side you will see, that after INCA's bid at $109 3/8 the next market participant is more than $0.25 away at $109 11/16. Therefore, the stock would jump over 25 cents once INCA decides to cancel its order or somebody buys those shares. This is not even an extreme example. In addition, please notice, that the intraday volume is low; there have only been 95,700 shares been traded. The difference between bid and ask itself (called spread) is over $0.08, making even more dangerous. You will find situations like this in lower volume stocks. On a stock like ANEN it can be rather difficult to get execution at a fair price, especially if the stock is moving. **The price can rise or fall rather fast because there are only few market participants supporting each price level.** Also keep in mind, that if you trade a stock like this, your stop can sometimes become larger, even if you don't want to; just because you are not able to get out at the price you want. **I strongly advice beginners not to trade stocks like this.**

Here is your Level 2 screen checklist before executing your entry:

SPREAD – anything more than 1/8 is the first sign of volatility. While this should not necessarily stop you from trading a stock, you must be ready for this larger spread. Do not just look at the inside quotes, look at lower price levels. How far away are the other quotes?

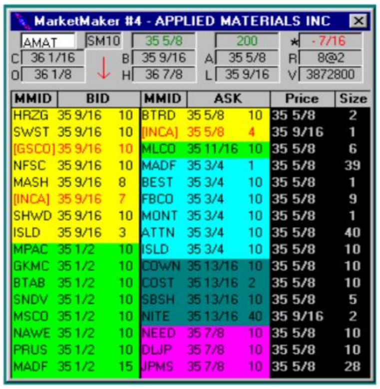
MARKET MAKERS - Which Market Makers appear to be the aggressive buyers or sellers in this stock at the present time? Is a group of Market Makers gathered at a certain price level? Why? Are these same Market Makers also gathered at an area on the opposite side?

ECN Presence – How active is the Island ECN in this stock? How about INCA? Some stocks are extremely sensitive to ECN activity. Some other stocks do not have an active ECN presence – this is common on low volume stocks. This will help you determine the most appropriate execution method (such as, SOES, SelectNet Preference, or ECN.)

ECN Size - Beware of large share size (more than a couple of thousand shares) displayed on INCA. INCA is often used to manipulate temporary direction. A strong indicator of legitimate INCA size is when INCA orders continue to chase a stock to higher (or lower) price levels. You can assume th INCA interest is real when you see INCA bids increasing as the selling price increases (or vice-versa). ISLD size however is much more reliable. A build up in ISLD size on the bid side will generally signal a temporary move to the upside. The opposite is generally true when ISLD size continues to build up on the ask side.

VOLUME – Too much or too little volume is generally not a good sign. Although volume should be gauged according to the stock's daily average. I a particular stock trades 3 to 5 million shares a day, a day where that stock is traded 10 or 15 million shares would be considered heavy, while less than 1 million would be considered light. The daily average volume can be seen on daily chart.

PRINTS – check the prints (actual execution prices on the "time and sales" column to see on which side (bid or ask) of the Level 2 screen is trading. Correlate this with Market Makers and/or ECN's currently present on the inside quotes.



MMID	BID		MMID	ASK		Price	Size
HRZG	35 9/16	10	BTRD	35 5/8	10	35 5/8	2
SWST	35 9/16	10	[INCA]	35 5/8	4	35 9/16	1
[GSCO]	35 9/16	10	MLCO	35 11/16	10	35 5/8	6
NFSC	35 9/16	10	MADF	35 3/4	1	35 5/8	39
MASH	35 9/16	8	BEST	35 3/4	10	35 5/8	1
[INCA]	35 9/16	7	FBCO	35 3/4	10	35 5/8	9
SHWD	35 9/16	10	MONT	35 3/4	10	35 5/8	1
ISLD	35 9/16	3	ATTN	35 3/4	10	35 5/8	40
MPAC	35 1/2	10	ISLD	35 3/4	10	35 5/8	10
GKMC	35 1/2	10	COWN	35 13/16	10	35 5/8	10
BTAB	35 1/2	10	COST	35 13/16	2	35 5/8	10
SNDV	35 1/2	10	SBSH	35 13/16	10	35 5/8	5
MSCO	35 1/2	10	NITE	35 13/16	40	35 9/16	2
NAWE	35 1/2	10	NEED	35 7/8	10	35 5/8	10
PRUS	35 1/2	10	DLJP	35 7/8	10	35 5/8	10
MADF	35 1/2	15	JPMS	35 7/8	10	35 5/8	28

Figure 4-1: L2 showing temporary Bid side support

Note that the Bid side is showing accumulation of Market Makers and ECN's at lesser price levels than on the Ask side. This is typical of down trending stocks hitting suppo – Support is reflected by the Bid Side activity – if you are going long for a scalp on this stock at the 5/8, you can be confident to exit – at worst!- at the ½ in case the trade goes against your favor. *Note that you are likely bucking the trend here.*

Here is a list of tips to guide the new trader when learning the Level 2 screen:

- Look for which Market Maker is the aggressor for the day.
- Correlate with prints.

- Take note if INCA is showing a size of 10 (actually 1,000 shares) and is constantly refreshing after being hit.
- Larger order size on the ISLD is a good indicator. Size on INCA is often misleading.
- On wider spread stocks that are consolidating, take note of INCA or a Market Maker jumping to the inside bid or ask (correlate this with recent price action!)
- Watch GSCO. Why? Because everyone watches him. He may be an aggressor, or he may be playing decoy to create opposite momentum. The GSCO trader knows that many Direct Electronic Traders watch him. He will use this to his full advantage. Use him to give you an advantage in getting the best price for your trade.
- The dealer market is by no means simple. It is filled with elaborate traps for even the most experienced traders. Just imagine what can happen to a novice! Watch every step of your trade.
- The NASDAQ market is prime territory to make a lot of money fast. Keep in mind, however, that the possible reward should exceed risk by a factor of two or three in every trade. If the trader is reckless and unprepared, the NASDAQ it is also prime territory to loose a lot of money even faster.
- When a stock is running to the upside, are the Market Makers simply raising the Ask. Look at the Bid as well. On a runaway stock, a widening spread is a terrifying sight. They must be just as aggressive on the Bid side! Remember that when "push comes to shove", you may eventually need to sell your stock to them and vice versa for a downside break.
- Keep an eye on the Bid side, regardless of whether you are long or short.

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Dark Pools: Good or bad for the average trader? http://www.beathft.com/?p=75 AVOID: 1. WALL OF SELLERS AT THE INSIDE ASK 2. inconclusive/low-percentage level 2 EXIT A TRADE: 1. number of market participants shrinks on a) the inside bid b) the first outside bid 2. quantity of lead bidders size starts to shrink 3. a wall of sellers starts to build 4. when you see the ax or other major mm flip from the bid to the ask use level 2 walls of support at THE FIRST OUTSIDE BID to set your stop Another dirty trick is when market makers fill "market orders" to their own advantage. When a market maker receives a market order, it's an order to fill at "whatever" the price currently is. The market maker will of course fill this at their own higher bid price. To avoid this, you should always place limit orders. Sometimes this is not necessary if the stock is very liquid or the spread is small enough but, even in those conditions, if the stock is moving fast you'll be at a disadvantage with a market order. Robinhood places "market orders" as a limit order with a 5% buffer, but if that buffer is too large for your taste place limit orders instead. Soaking up size – Soaking up size is when a market maker buys or sells more shares of the stock than they show on the level 2 screen. If a market maker is soaking up size on the ask, there's a good chance it's dilution and this is a bearish sign. If a market maker is soaking up size on the bid, that means they could be accumulating shares or creating a level of support, which can be a bullish sign.(edited)

Beat HFT - Tips, tricks, tools and techniques to trade in a HFT era

Fernando Oliveira

Dark Pools: Good or bad for the average trader?

1

Shorting – Many people make the assumption that market makers want to see a stock rise in price. Keep in mind that market makers can short sell a stock and profit on the way down.(edited) Fake Big Orders – One of the best ways to mess with the psychology of the market is to show big orders on a level 2 screen. Big orders on the bid make it seem like there is a large demand for the stock, while big orders on the ask make it seem like there is a lot of supply. These levels can act as mental support and resistance levels for traders using level 2 screens. Market makers know this and can place big orders to move the stock in a certain direction. For example, if I buy 100,000 shares of a stock at .03, and it runs to .04 where there is a market maker showing 5 million shares for sale, I (along with other traders) may sell the stock. The large order may not even get filled at all, however, its presence alone has an effect. Market Makers are Traders – All this talk of shorting, soaking up size, and fake big orders can seem like a crazy conspiracy theory. I'll admit that there are some crazy market maker conspiracy theories out there, but it's important to remember that market makers are traders. Just like other traders, market makers are trying to make money. Yes, it is their job to keep a balanced market, however, they are also responsible for remaining profitable. This is important to understand because it can shed light on a market maker's intentions. For example, if a market maker shorts a stock at .02/share and the stock runs to .04/share, you could understand why the market maker may have motivation to push the price down. Don't get paranoid and automatically assume market makers are manipulating a stock; just be conscious of what is going on and look for red flags.

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You can “manipulate” a level 2 screen in your favor – Last but not least, understanding the supply and demand distribution can actually help you manipulate a stock in your favor. The word manipulate can have a negative connotation, but that is not the case here. You are not doing anything shady. You are simply placing strategic orders to support your end goal. On this particular day, sellers were clearly in charge. Buyers wanted to buy 185,000 shares and sellers wanted to sell 1,626,000 shares. There is an imbalance. Anyone who looked at the Level 2 screen would be hesitant to start buying shares because the price could drop fast if someone sold into the bid. If you want to show the market that there is more demand for this stock, you can create that demand by building bid support. If you placed a few orders totaling 1,000,000 shares on the bid side, there would be a better balance. Of course, you better be prepared to pay for those shares, however, sometimes, just showing the bid support is enough to push a stock price up. You should never use this solely as a bluff, but if you are bullish on a stock, you can use this strategy to share your sentiment with the market. The market may see the bid support and decide to buy on the ask because they have a nice safety net if things don’t go as planned. This is most feasible when you already own shares and want the price to go up. Otherwise, it is pointless. Think about this. If you have been watching level 2 screens for awhile you have definitely experienced this setup. A stock is running up or down and then it hits a huge order on the bid or ask. This order acts as a wall because it would take a lot of shares to break past it. A lot of the times this order won’t even be fully filled, but the fact that it is there is enough.(edited)

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For example, let’s say a stock has run from .03 to .035 intraday on 10 million shares of volume. Traders are bullish until someone puts an order to sell 2,000,000 shares at .0351 on the ask and suddenly momentum slows. People make take chips off the ask but the stock bounces back down. The seller may only sell a few hundred thousand shares, but they were able to push the price down because they messed messed with the psychology of the market. All of a sudden, many traders will go from being bullish to bearish in the short term as a trend reversal may be in the works. This seller made it seem like it would be difficult for the stock to break past that point, so people start taking profits in.
NITBB - no intentory to buy bid NITSO - no intention to sell offer Market makers additionally at times attempt to delude different merchants utilizing their request sizes and timing. These sorts of requests are called NITBB or NITSO (No Intention to Buy Bid or No Intention to Sell Offer). At the point when utilizing this system, the market member shows a gigantic size enormously surpassing all others seen on Level 2. Regularly it’s done keeping in mind the end goal to incite dealers to move the other way, as they are attempting to undermine this enormous size or to get in or out “front running” this size. Case: If some player needs to aggregate shares at $5.90 while the market is at $5.98 x 10, he can attempt and show an

immense size at $6.02, spooking brokers into offering. Then our player puts an offer for little imparts at $5.90 to a save arrange for the measure of shares he needs, consequently retaining the offering. When he is done purchasing, he crosses out.

V - MM's BEHAVIOR ON LEVEL II Example of an ax who is selling: - When the market is rallying, the stock has a hard time moving higher, seemingly hitting a wall every time. And every time the wall seems to have the same initials and yet, when the strength subsides, the stock has no trouble falling. And the ax seems to be following the stock down. That?s where Level II comes into play. You have now found the missing link. You can see around the corner and start to see patterns. MM AX is on ask - it means he is driving price down - not good for us because we are buying and not shorting the stock (can?t short OTCBB). - Example: WNMI (finding an ax): Apply process of elimination. You will see in Feb. CHIG and UCAP weren?t there. The run started late march. Remember this is month behind (delayed) => reason we go back a month also another good idea to get more DD out of who is diluting check s-8?s, sb2's fillings, then look at chart before the stock broke out notice who was soaking more shares than others this. Remember little MMs don?t worry about, they won?t control stock and that?s the reason why we eliminate them (volume will blow them away) There was also CD's (convertible debentures) out on WNMI before that u want to look for these also.

Some ways MM's entice sellers: 1. Run the stock up with a "tight spread? in a fast market, then ?open? up the spread to slow down the buying interest. After it has ?cooled off? for a little while lower the offer below the last trade right after a small piece trades on the offer then tighten the spread so that the sellers feel they can take a ?quick profit? by ?hitting the bid? on the tight spread. Once the selling starts the MM's will walk it down quickly by only making small prints on the way down with the tight spread. 2. Another way is by running the stock up in the morning, averaging up their short then use the above technique to walk it down in the afternoon. Hopefully, after doing this for several days, it will demoralize the buyers. The volume will dry up and the sellers will materialize thinking that the game is over. Contrary to popular opinion, MM usually Do Not Cover in Fast moving markets either Up or Down if they are short. They Short More. They usually try to cover after the frenzy is out of the market. There are many other techniques they use but the above are the most popular. These techniques work about 9 times out of 10 particularly in a BB market. However, that is because 9 out of 10 BB stocks are BS. Remember what I said above. Most MM's don't have a clue as to the value of a Company until they get trapped If you do see a huge bid or ask - thousands of shares where it's not usual it's often a fake. That is, they really don't want to execute that trade but are actually trying to scare others and to move the stock the opposite way that their bid or ask would indicate. If the stock happens to trade closer and closer to that larger bid or ask, it will usually disappear. Smaller stocks and penny stocks are rife with that type of dishonest manipulation on OTC markets.(edited)

Market makers will almost never show their hand to let others know what order they are working. For instance, let's say a market maker for at a major firm receives an order to purchase 25,000 shares of a stock at a $5.00 limit for an institutional client. He will never bid for the full 25,000. He will place a 100 or 200 share bid at $5.00 or lower. Why? If the market maker places all 25,000 shares at the bid at $5.00, another market maker with shares to sell could "hit" that bid and sell him everything at $5.00. The trade is over; the bidding market maker has just bought all 25,000 at $5.00. However, using smaller bids and some patience will usually mean he can get shares a bit cheaper. With a 25,000 order, a difference of just a few cents can result in thousands of dollars.

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Top MMs - GSCO MSCO MLCO SBSH Other MMs - NITE PWJC MASH ETRD SCHB TDCM ARCA CAES ARCE ECNs - ISLD, ATTN, TNTO, BTRD, ARCA, REDI, BRUT, ATDF, ETRF Instinet - INCA
https://cdn.discordapp.com/attachments/273859172599332864/400486539735466003/unknown,.png
https://cdn.discordapp.com/attachments/273859172599332864/400487094184706079/unknown.png
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https://cdn.discordapp.com/attachments/273859172599332864/400488172020039691/unknown.png(edited)

- New daytraders are advised to maintain positions for from 5 minutes to 2 hours max; intermediate/advanced daytraders should trade from 10 second - 20 minute roundtrip trades. Swing traders that are becoming daytraders are advised to start with overnight holds that are sold premarket or within the first 15-30 minutes of market open. This well help you tighten your trading range down to a faster style. Notice that many profitable opportunities can be had with overnight holds that are sold into the premarket gap up using level 2; the key is to sell on ISLD if it's within a spread or two of the best bid, but hold off for the actual open to sell if Level 2 shows ISLD 3 or more spreads away from the best bid, since you can sell to one of the mm's at their bid if they don't drop it immediately on open.

Reading the Tape: Using Time & Sales Successfully

The Tape 101: What is time and sales? What's it used for?

Edison invented the original stock ticker a long time ago (his first big commercial success). Its' purpose remains unchanged to this day: it simply shows the transactions that occur whenever stock is bought or sold. Transactions are "printed" one after another in the order they happen, in realtime. The "tape" of yesteryear is replaced by realtime Time and Sales (T&S) electronic displays in that show us whenever a trade has occurred.

Using T&S, we see both the time that the trade occurred as well as how many shares changed hands. So, it might read 10:33 AMZN 500, telling us that someone bought 500 shares of Amazon at 10:33am. The next trade may be 10:34 AMZN 200, showing us the next trade in order was for 200 shares a minute later, at 10:34. And so on throughout the trading day.

We use it to see if trades occur repeatedly at the ask price (a bullish, uptrending sign showing buying) **or the bid price** (a bearish, downtrending sign showing selling). We also look for other indicators, like the **size of the trades occurring** (10K - 50K blocks of trades are more important than 100-share trades by individuals), as well as the **momentum, or pace** of how fast the trades occur in Time and Sales (this often speeds up when major pivots, or turning points, occur in the stock price).

- Many new daytraders go with daytrading brokers from the start, and the speed causes them to spend a fortune in commissions and bad trades, wiping out a lot of their trading capital. Think of it like racing, if you want to be a racer start by driving a sedan first, then migrate to the Formula One racer...if you start with the fastest thing out there you can accelerate your trading losses. During the first 3-6 months, use a reasonably fast online discount broker. If your online broker can't give your order confirmations and fills within 60 seconds on average, though, switch. I made a lot using Datek for well over a year; now I'm with Cyber.

- New traders might want to consider using longer trading timeframes (eg swing/overnight holds) or longer intraday trade times (eg buy at 9:50 sell at 11:30-type trades); you should use a direct-access daytrading broker if you like to scalp within under-20 minute roundtrip type trades (my favorite). If you don't need to have your order filled within a few minutes (because you buy it at 9:50, sell it at 11:30 etc. type trading), there's no reason to spend the extra commission load to get the faster fill time. Just be sure to *always* use limit orders to buy.

2

@everyone jeez that was a lot to move over to this channel but i have faith that you guys will read all of this and take something away from it. It is NOT EASY to teach this material beyond practicing and I don't think you will find much else like this elsewhere....I hope this is as good to you as it was to me as I was learning and taking these notes. Use this material as a SUPPLEMENT to what we do intraday with reading the tape and level 2. One can NOT be done without the other to get the big picture. You must PRACTICE but you must also STUDY. You'd never go into an exam without studying first, but you should also never go into that exam without performing some practice problems first. So why do it with your money
I love this guys. Thank you so much for the feedback. Really rewarding to know that my work is helping you guys out and being utilized

Quote windows for the Nasdaq exchange are available in three levels, appropriately named Level I, II and III:

- **Level I shows the "inside" quote --** or the highest bid price and size, and the lowest offer price and size. These are the "real-time" quotes you get with most charting packages that are set up for intraday data reception, such as AT Attitude, QCharts, Omega Research, etc. Keep in mind that due to the market ebb and flow, a Level I quote may or may not be accurate, according to how quickly the market may be moving.

- **Nasdaq Level II quotes are available to NASD approved subscribers --** in the past couple of years this has been expanded to include the public. The Level II quote screen shows the "size" of the quotes (number of shares being bought or sold by a market maker or ECN), in addition to the price being bid/offered by each party involved in the particular security. Since having access to more information allows the trader to make a more informed decision about entering or exiting a trade, learning to interpret the data on this screen will allow you to become a better trader.

1
WE USE LEVEL II DATA ^^

A great deal of information is in view on the screen, sorted for you by key elements:

- **The market maker's active quotes on both sides of the market they are in --** all of the bids are listed on the left side of the screen, while the offers (or ask, as it is often referred to), are listed on the right side. The bid side consists of a those wishing to purchase stock and the ask is made up of participants willing to sell their shares on the market.
- **Quotes and sizes from ECN's (Eletronic Communications Networks) --** ECN's are independent network systems built by broker-dealers to match up new incoming orders with existing orders already in their system. They are listed on the quote screen among the market makers, and will appear where they fall according to price level. The most popular ECN's are Island (ISLD), Instinet (INCA), Redibook (REDI) and Archipelago (ARCA).

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- **Level III provides all the services of Levels I and II --** but is only available to licensed and registered market makers. Level III allows them to post or refresh their bid or offer on any security in which they want to make a two-sided market.

Heavyweights

These firms are the biggest of all the players in the game. They posses a worldwide presence in the financial markets, and it is important to know who they are and what they are doing, because they are good participants to shadow when trading. Going against these leviathans would be tantamount to climbing into the ring with Iron Mike Tyson -- some of you may be able to pull it off, but I don't recommend it.

- **Goldman Sachs & Company (GSCO)**
- **Morgan Stanley (MSCO)**
- **Salomon Brothers (SALB)**
- **Lehman Brothers (LEHM)**

Wholesalers

Wholesalers are firms who hold no bias in any of the stocks in which they are active, meaning they have no retail operation and only make markets for other firms. These are the two largest and handle a great deal of order flow.

- **Knight Trading (NITE)**
- **Hertzog (HRZG)**

The Big Retailers

These are the well-known brokerage firms whose names are thrown about every day in the newspapers and television networks like CNBC and Bloomberg News. They are big retail, full-service brokerage houses who use their brokers to create commission revenue by writing stock orders.

- **Smith Barney (SBSH)**
- **Paine Webber (PAIN)**
- **Prudential (PRUD)**
- **Merrill Lynch (MLCO)**
- **Dean Witter Reynolds (DEAN)**

The "Outside" Market and What It Tells Us Any market maker whose bid is not at the "inside" market, (the highest posted bid and the lowest offer), is referred to as being "outside" the market, or away from the money. When a market maker bids low or offers high, they most often do not attract much attention . Why would I or anyone else want to sell to Paine Webber (PAIN) when their bid is below that of Salomon (SALB)? However, it is important when looking at a stock on the Level II screen to be able to gauge the potential for momentum in that issue, as well as which direction that momentum is headed. When you have the ability to look at the stack of market makers, it is as if you can see directly into the support of a building. You are able to view the strength of the market's structure. For example, if three or more market makers are sitting on the inside bid, that would be a signal of a strong market structure, and if there is only one, you can determine how strong the bid is by viewing the prices one level below it, and those another level down. This will give you an indication of how strong the demand level for a stock is, the available supply and whether the pressure is on the buy or sell side.(edited)

Level II simply reflects a very simple principle of economics -- the law of supply and demand. When supply overtakes demand, prices fall, and when demand exceeds the available supply, prices subsequently rise. On the extreme levels, when supply continues to grow larger and larger while demand dwindles, prices drop like a stone. In the event that demand completely outstrips the the supply chain, prices take off like a rocket. When you are reading a Level II quote screen, what you are looking for are the forces of supply and demand, and this is reflected in the prices the market makers quote on the bid and the offer sides of the screen. If a market maker is bidding high for Juniper Networks (JNPR) and others decide to join the party, prices are likely to ratchet higher. On the other hand, if Goldman Sachs (GSCO) lowers the quote on their inventory of Cisco Systems (CSCO) and more participants follow suit, the stock's price is going to take a hit.

The Time and Sales Screen The time and sales window shows every trade, at what time it was filled, and the size of the share amount. As each trade is printed, the market makers will either pull their quotes or refresh them on the screen. You can use the Level II screen with the Time and Sales window in tandem to see if the particular market maker at the inside bid is, in fact, accumulating the stock. For example if you are following MYGN with both your Level II screen and Time and Sales and you see that Lehman Brothers (LEHM) has first bid for 2,000 shares at 100 1/2, then 1,500 shares at 101 1/8 and then another 1,000 shares at 101 7/8 (all filled at 12:05:42, 12:06:20 and 12:06:45 in the screen above) it would appear that LEHM is a buyer of size, soon other market makers should be joining the fray and coming in to compete with LEHM at the inside bid, which will set the issue in motion to trade at a higher mark-up.

Now you have an understanding of **basic** fundamental price action that transpires on the Level II screen.

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Now we will look into the games that market makers play, why they will attempt to hide their activity so as not to make it transparent, and what to look for to uncover a market maker's true intentions.

Look To Follow The "Ax"

When major players like Salomon Brothers (SALB) or Goldman Sachs (GSCO) have a large amount of order flow in a given security, many times they will not have the time or the luxury to play games on the Level II screen. What will interest them the most is getting their order filled for the client, and in many instances they will charge in with little hesitation. This makes the action on the screen pretty straightforward and simple to read. They will appear as a buyer of stock, spend more time on the bid side as opposed to the offer, and increase the size of their bids.

For example, let's say that SALB has a large order from a mutual fund manager to purchase 500,000 shares of a particular stock. Observant traders recognize over the course of the trading session that Solly is snapping this issue up and, due to the amount they are buying, causing the stock's price to increase. SALB will do its best to to hide the order as much as possible, but due to the fact that on the Level II screen you are able to view SALB purchasing the stock, it becomes apparent that SALB in this stock is the "ax," or dominant market maker.

What you want to develop in utilizing Level II is the ability to spot this type of activity and then follow the "ax." This is a very reliable strategy for a trader to employ, for it puts you on the same side as the big boys. Remember the laws of economics -- supply and demand. If a particular market maker continues to exhibit an insatiable appetite for stock, mirror him and do exactly what he does -- buy if he is a buyer, and sell if he is selling.

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Keep in mind that the ax will not just sit there and continue to bid and buy over and over. Many times after a few trades are filled, they will pull the bid and disappear, only to come back later at the current bid or possibly even higher. This kind of action is what tips the market maker's hand, it is the ax. As the market maker does this over and over without selling on the offer side of the screen, you should recognize that it is not a seller -- it is a net buyer of stock. The market maker just wants to attempt to go about its business as quietly as possible, without attracting attention. An elephant trying to slip silently into a bathtub still makes quite a scene however, and with the Level II screen you can see the water spilling over the side in the form of the institutional buying. Stay with the ax as long as it is apparent that he is continuing to accumulate the stock. When he does not come back for more, or quite possibly he will even join the offer side, that is the signal for you to get out at that point.

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Beating The Market Makers By comprehending the actions of market makers, you will be better equipped to predict their actions. The advantage for you as a small speculator is that when you analyze all of the possible combinations of tricks market makers will try to pull, there is only a finite number of 12 actions that market makers can take. By continuing to be attentive to the dealings of the big players, you can discern who is for real and who is not. Of these 12 moves an institution can employ, six will give an indication of rising prices and the other half dozen will be a harbinger of falling prices. The following table is the equivalent of the big boys' playbook -- learn these 12 actions!

1

Stealing The Market Maker's Plays

By comprehending the actions of market makers, you will be better equipped to predict their actions. The advantage for you as a small speculator is that when you analyze all of the possible combinations of tricks market makers will try to pull, there is only a finite number of 12 actions that market makers can take. By continuing to be attentive to the dealings of the big players, you can discern who is for real and who is not. Of these 12 moves an institution can employ, six will give an indication of rising prices and the other half dozen will be a harbinger of falling prices. The following table is the equivalent of the big boys' playbook -- learn these 12 actions!

Indicators of rising prices:

1. **Increasing of the ask price** -- MM at the inside asking price increases offer price, raising the price of the inside offer
2. **Leaves the ask price** -- MM moves its price upward from the inside ask
3. **Joins the bid** -- MM moves its price up to the inside bid
4. **Refreshes bid** -- MM will purchase stock at the bid and "refresh" bid at the inside market with more shares
5. **New high bid** -- MM quotes a higher bid than the other market makers
6. **Moves from ask to bid** -- MM pulls his ask and moves over and joins the bid (counter clockwise bullish motion)

Indications of falling prices:

1. **Decreases bid price** -- MM at inside bid decreases price, lowering price of the inside bid
2. **Leaves the bid** -- MM alters price of bid lower than inside price
3. **Joins the ask** -- MM lowers offer to that of the inside ask
4. **Refreshes ask** -- MM sells at the offer and refreshes another offer at the inside price with additional shares
5. **New low ask** -- MM quotes a lower ask than the other market makers
6. **Moves from bid to ask** -- MM pulls bid and moves over and joins the ask (clockwise bearish motion)

Let The Games Begin

Market makers make use of the moves discussed above to attempt to keep their true intentions hidden. Never forget that the Level II screen is their territory, and while it is true that their actions are out in the open, they are (at least on the surface) only going to allow you to see what they want you to see. They like to play their cards close to the vest, much in the same fashion a good poker player doesn't give anything away until he finally throws down the hand. At some point in the game, however, he will have to show what he is holding.

You will often encounter a market maker continuously pulling back the ask (or bid) a notch each time the offer will tick higher (bid ticks lower). When a market maker acts in this manner he may technically be "in the market" but he is not really in the game. When you see this, that particular MM is not one you want to follow.

One of my favorite tricks is when a market maker will flash sizeable bids away from the inside market and then move it closer to the inside quote to give novice traders the appearance of being an aggressive buyer. One action should tell you all you need to know if the MM is for real or just throwing a smokescreen. The market maker in question in this scenario could actually be a seller of stock. Ponder this for a moment. You have a large chunk of stock to unload as a large institution that smaller firms and independent traders will be following. Would it not serve you well to get those you could trick into thinking you were a buyer to ride your coat tails and jump in and buy? You have just created a huge customer base to now sell to!

What you want to do to see if this activity is for real, is watch if the market maker gets near the level of the inside quote and stops short -- if this happens he has tipped his hand. He is very likely dangling a -carrot for others to chase. However, if he joins the bid at the inside quote and begins to acquire shares, the size can be assumed to be true with a good degree of certainty. If this action takes place an influx of buying pressure should ensue.

If a firm has a rather substantial-sized order to either fill or unload, what they will often do (sometimes in the manner described above) to keep the size of the order as well hidden as possible. Let's say, for example, that Lehman Brothers (LEHM) decides to sell off a large holding in a particular issue. Most likely, he will only quote a small part of the order on level II. He will join the inside offer, sell some shares, and continue to come back and refresh his offer at the inside quote and sell more, over and over again.

One thing to make note of when this takes place is which market maker is doing the selling (or buying). If you have been observing the activity in the stock over a period of time, you will have developed a feel for who its key market makers are. Was the MM performing the selling (buying) one of the key players? If the answer is yes, weight that factor a little more heavily into your decision.

Putting The Pieces Together

Unfortunately, much of learning to be a great tape reader on the Level II screen can be achieved only by practice. What I have attempted to do is give you a good education on the fundamentals necessary to trade, using Level II to help guide your buy-and-sell decisions. It is only a basic tutorial to get you started. What you have to do now is read the Level II screen with regularity to train your eyes, not only to spot what we have touched on in the past few weeks, but also to be able to react to what is unfolding in front of you, as the action will be fast and furious.

When starting out, remember to give yourself time to adjust and, above all, don't make things more complicated than they already are. Take the time to monitor the stocks you are going to follow, learn who the major players are in a stock, and watch what they are doing on a daily basis. Only by keeping a vigilant eye will you be able to spot when a market maker is trying to pull the wool over your eyes. The most difficult part of using a Level II screen is that market makers are always on top of what the other MMs and traders are trying to do, so they are always trying to run as inconspicuous an operation as possible, to run underneath the radar and avoid detection for as long as possible.

When smaller institutions and traders figure out what the big boys are up to, they make their job much more difficult. Therefore, they are going to be as sneaky as possible in their overt actions. You can see them lying in the high weeds, however, if you:

- master the basics
- learn who the market players are
- learn how they tend to function as an institution, and
- memorize the market makers' playbook

Concealing the patterns for large orders - look if he stays on bid consistently - overall minute volume - his spread on the bid ask - if he returns to the inside bid more often in size than the ask, he is probably a buyer

This is something I have never ever seen anywhere else really MMs use what is called "Nasdaq Workstation II (NWII)" to manage their trades -- it costs $1500+ a month and is an example of the programs they use to try and beat us

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DO NOT TRY TO FOLLOW THE AX IN STOCKS THAT HAVE MOST ORDERS GOING THROUGH ECNS or stocks that have thin bid/ask spreads (1-2 market participants at each level)

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- We always want to look for lopsided high-percentages situations to trade in - Don't go long during lunch, use small stops, stay ahead of the crowd, use charts and T&S to verify entry/exit(edited)

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Realize what you're into here. You set your own odds in this casino, and every one of the skills you master should help you become more effective.
AVOID: 1. WALL OF SELLERS AT THE INSIDE 2. inconclusive/low-percentage level 2 GOOD: 1. inside bid/ask ratio of MMs and ECNs 2. buying when the lead seller is done selling for now EXIT A TRADE: 1. number of market participants shrinks on a) the inside bid b) the first outside bid 2. quantity of lead bidders size starts to shrink 3. a wall of sellers starts to build 4. when you see the ax or other major mm flip from the bid to the ask use level 2 walls of support at THE FIRST OUTSIDE BID to set your stop

1

Another trick is when market makers fill “market orders” to their own advantage. When a market maker receives a market order, it’s an order to fill at “whatever” the price currently is. The market maker will of course fill this at their own higher bid price. To avoid this, you should always place limit orders. Sometimes this is not necessary if the stock is very liquid or the spread is small enough but, even in those conditions, if the stock is moving fast you’ll be at a disadvantage with a market order. Robinhood places “market orders” as a limit order with a 5% buffer, but if that buffer is too large for your taste place limit orders instead.

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<u>Dilution</u> is most noticeable when a market maker shows a certain amount of shares at a specific price, but sells much more than the amount shown (soaking up size). For example, VFIN may be showing 10,000 shares for sale but actually selling hundreds of thousands. When I see a market maker who is infamous for dilution on a level 2 screen, it is a red flag. Frequent dilutors include but are not limited to VFIN, VNDM, PERT, and VERT. I view dilution on a level 2 screen the same way I view a resistance level on a chart; price levels that will be hard to break.

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They'll play a game with you. Go on the bid with large size to push the price up a little, maybe even up tick (move their bid up one level) to push the price a little higher. All the while they're using an ECN, for example INCA, to sell short the shares the unsuspecting trader is buying (thanks Mr. ax). Then they move to the sell (ask) side with large size to cause a mini panic.

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As the panic heightens and the stock drops, the market maker will buy back the shares they just sold you at a higher price pocketing the difference (this is called selling short). You will not see them buying back the stock because they will be buying through an ECN. Very effective, and designed to profit off of traders that look for support and resistance on the Level II screen.

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Common MMs for routing orders - NITE ATDF ETRF ARCA Wholesalers - ETRD, HRZG, MASH, NITE, SHWB MLCO seems to flip the most and is somewhat obvious about making his selling known by holding the inside ask HRZG frequently posts phony bid sizes SBSH rarely headfakes, pretty open about making his buying known by the inside bid VFIN - MM of 6,000+ stocks - 15 billion shares a month VNDM - small cap and illiquid stocks PERT - UK market maker ETRF - formerly E*Trade but was sold to Susquehanna International in 2013. Specializes in being MM for retail customers

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ATDF - subsidiary of Citigroup NITE - responsible for up to 17% of all volume on the NYSE and Nasdaq making a market in over 19,000 securities and generating over $21 billion of daily dollar volume and nearing 4 billion shares traded daily in 2012 - he is the shaker on many stock runs Capital Group - specialized in small caps - suffered a $440 million single day loss due to an algo glitch on Aug 1, 2012 - lost $10 million per minute during the 45-minute fiasco that blasted out 4 million executions on 154 stocks and over 397 million shares of activity - acquired by Getco LLC to form KCG Holdings in 2013 CDEL - Citadel securities - CEO is Microsoft COO - responsible for up to 13% of all stock trading volume - 25% of options volume - largest options MM in the US GSCO is the baddest MM on the block - super skillful - pulls strings of fear and greed to move it any way he wants INCA and ISLD - some of most common routing choices for MMs TDCM - Retailer MM, you love him on the bid CDEL as bad as VFIN for diluting, but he is more likely to be retail than VFIN NITE more likely to be retail than diluter ASCM you can avoid unless it looks like its a rally and they're pushing the ticker up

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Edition #2 supplement to my original #tape-reading_and_level-2 post that a lot of you have already had the chance to read through and process. Hope this is a useful supplement to what you are learning/have already learned! @here(edited)

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GSCO = Goldman Sachs MSCO = Morgan Stanley MLCO = Merrill Lynch SBSH = Salomon Smith Barney SBSH = Citigroup Global Markets LEHM = Lehman Bros JPHQ/JPMS = JP Morgan CDEL/CDRG = Citadel Securities CSTI = Canaccord Genuity CANT = Cantor Fitzgerald UBSW/UBSS = UBS Securities FBCO = Credit Suisse First Boston NITE = Knight Capital Group / Knight Trimark DBAB = Deutsche Bank Alex. Brown ARCA = NYSE Arca Equities CBSX = the CBOE Stock Exchange EDGA = the Direct Edge ECN PHLX = the Philadelphia Stock Exchange BOSX = the Boston Exchange NSDQ = the Nasdaq Stock Market BATY = Bats BYX Exchange BATS = Bats Exchange EDGX = EDGX Exchange HRZG = Herzog MONT = Montgomery Securities / Bank of America Island = ISLD / INET Archipelago = ARCA and ARCHIP ETRD = E*Trade TDCM = TD Waterhouse Capital Markets SSIC = Scottrade WEDB = Wedbush Morgan BOFA = Bank or America VNDM = Vandham Securities STEW = Collins Stewart SUSQ/SUFI = Susquehanna JPTC = JP Turner and Company

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Order routing allows traders the ability to choose how and where to place their orders. We can break the routing systems down into order-routing systems and ECNs (electronic communication networks). Order-routing systems are in essence the messengers, and ECNs and market makers are the receivers.

On the Nasdaq, there are primarily three order routing systems, SOES (Small Order Execution System), SelectNet, and ARCA (to alleviate any confusion, we will go into greater detail on ARCA at the end of this section, as it acts as an order-routing system and an ECN). Order-routing systems allow the individual investor to deal directly with the market makers in a timely fashion (SOES), and SelectNet also allows access to ECNs. SOES and SelectNet must not be confused with the ECNs. Understand that ECNs are primarily electronic limit books that automatically match up bid and ask orders as they come in.

Basically, SOES allows an individual investor to hit a market maker for up to 1000 shares or his displayed size. **The market maker is required to fill the order <u>within 17 seconds</u> or change or update his quote.**

You will find that on many Nasdaq Internet stocks with thin floats, market makers often only display 100 or 200 shares on the bid and ask even though you may see 1000-share trades on time of sales.
Since the stock may be thinly traded, market makers like to protect themselves from the fast SOES orders by only displaying the minimum tier requirement.
However, they may take more shares on SelectNet, where they have more time and leeway with price.
SOES market orders are faster than limit orders because the only goal is to get filled at the inside price, whatever that price may be (as market makers can continue to update their quotes rather than fill the order within 17 seconds).

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The 5-minute rule was also implemented by the Nasdaq as another measure of protection for market makers. In the days of the SOES bandits, market makers would get flooded by the same bandits continuously on the same stock with no breathing room. The 5-minute rule applies to the individual trader, stipulating that he cannot use SOES on the same stock for more than one roundtrip (a buy and a sell) within 5 minutes.

Many traders misunderstand this rule and assume they can only use SOES every 5 minutes, as it applies to the Nasdaq market in general. This is wrong. The rule applies only to one Nasdaq stock at a time. Therefore, a trader could do a round-trip SOES order (buy and sell or short and cover) on COMS, and then do a round-trip order onYHOO, and so on with different Nasdaq stocks. The trader could not execute another round-trip SOES order on COMS until 5 minutes after her last roundtrip on COMS.

SelectNet orders can be filled at the discretion of the market maker within 27 seconds. Markets makers can opt not to fill the order also, depending on how many market makers are on the price level and whether the order has been broadcast or preferenced. This is where SelectNet gets sticky.(edited) (edited)

SelectNet orders are broken down into broadcast and preference. A SelectNet broadcast order takes your limit order and announces it to all the market makers at your requested inside price level. If a market maker wants to fill your order, then he will accept itj if not, he will sit it out, allowing any other market maker at that level to fill your order.

SelectNet preference order requires you to pick a specific market maker on the Nasdaq Level 2 screen and will send your order directly to that market maker. That market maker has 27 seconds to fill your order or update his quote. Understand that in this case 27 seconds is an eternity and gives the market maker more time to measure the momentum and make a decision.
Market makers have full access to all limit books and Nasdaq Level 3 and order flow, they have more inside market information than the average day trader. You can often assume that if a market maker—a skilled market maker—takes your SelectNet order on the bid or ask, the market maker sees something you don't, and vice versa. There is usually a nasty aftertaste on getting filled on a SelectNet order. Generally, traders usually get filled just as a stock makes a reversal. This doesn't apply all the time, but the aura of having a stacked deck working against you is there.

ARCA is short for Archipelago and serves as both an order-routing system and an ECN. ARCA can be seen on Nasdaq Level 2 as ARCA limit book.

ISLD, ARCA, and Instinct are the three major ECNs that have dominant market share. Still, there are other ECNs that are growing, like REDI, BTRD, BRUT, and STRK; and the list goes on as more ECNs arise.
The ISLD (Island) ECN is the ECN of choice with day traders due to its speed and liquidity. Most day trading brokers offer direct access to the ISLD ECN. ISLD is very fast with fills, usually executing in a matter of 3 to 10 seconds, depending on your (edited)

Internet connection speed. ISLD generates 10 percent of the daily volume on the Nasdaq. ISLD is represented on the Nasdaq Level 2 screen as ISLD and will only display the inside bid and ask prices in the limit book, along with a cumulative size for the inside price level on both sides.

The term Island boys (ISLD boys) is used to describe the large sizes on ISLD that often flash on the bid and/or ask on Nasdaq Level 2. Sometimes the size is real and will hold firm when the ISLD boys get hit.
Oftentimes, the sizes are simply flashed to nudge or add to the momentum (buying or selling) and disappear, a bluff. When the actual ISLD limit book is observed, the large block on Nasdaq Level 2 often shows up as a gang of smaller lots at a price level. This particular form of bluff was taken straight from the pages of the market makers, as they have been known to do the same thing with INCA.
This is not to imply that all ISLD sizes are fake. When a large block is placed just right, it can add fuel to the existing momentum, or in many cases cause a momentum reversal, especially when the selling subsides and there is a pause as the gap gets tightened on the bid side in the case of a reversal off a short-term bottom.
Once market makers and traders sense there is a real buyer, you will often see more bids, and before you can blink, the stock will reverse and retest.