Market Making

Market Maker: A market maker accepts the risk of holding a certain number of shares of a particular security in order to facilitate trading in that security. Each market maker competes for customer order flow by displaying buy and sell quotations for a guaranteed number of shares. Once an order is received, the market maker immediately sells from its own inventory or seeks an offsetting order.

The Spread

A spread is the difference between the bid and the ask price of a security or asset.
Example: current quote is $20.20 by $20.30, then the spread is $0.10.

What is making the spread? and what is paying the spread?

Passive vs Aggressive

Passive: sending a limit order and waiting to get a fill on it.
Agressive: sending a limit or market order that will instantly get filled.

Providing liquidity to the markets

**Adding (providing) vs Removing (taking) liquidity?

Example of taking vs providing liquidity:

Current quote is $20.20 by $20.30.

Buy market orders and limit orders set at $20.30 or higher are taking liquidity.

Buy limit order set at $20.29 or lower are providing liquidity.