## Dark Pools

Dark pools are private exchanges or forums for trading securities; unlike stock exchanges, dark pools are not accessible by the investing public. Also known as "dark pools of liquidity," they are so named for their complete lack of transparency. Dark pools came about primarily to facilitate block trading by institutional investors, who did not wish to impact the markets with their large orders and consequently obtain adverse prices for thveir trades.

### Darkpool facts:

- Around since the 1980s
- 15% of all US stock trades in 2014 were on dark pools

### Dark pools: Pros

- Reduced market impact: market impact is significantly reduced for large orders.
- Lower transaction costs: Transaction costs may be lower, since dark pool trades do not have to pay exchange fees.

### Dark pools: Cons

- Pool participants may not get the best price: The lack of transparency in dark pools can also work against a pool participant, since there is no guarantee that the institution's trade was executed at the best price.
- Vulnerability to predatory trading by HFTs: The recent controversy over dark pools has been spurred by Lewis' claims that dark pool client orders are ideal fodder for predatory trading practices by some HFT firms, which employ tactics such as "pinging" dark pools to unearth large hidden orders, and then engage in front running or latency arbitrage.

### Predatory Algorithms & Gaming Algorithms

- Finding Dark orders and front run them.
- Deciphering other algorithms and gaming them.