

Title: Fidelity could be playing a bigger role in this than we thought

Author: Justbeenlucky

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In an article that I do not know how to link the CEO of Schwab stated that Fidelity uses internalization as an alternative to PFOF.

What is internalization?

according to investopedia "In business, internalization is a transaction conducted within a corporation rather than in the open market. Internalization also occurs in the investment world, when a brokerage firm fills a buy order for shares from its own inventory of shares instead of executing the trade using outside inventory. The process is often less expensive than alternatives as it is not necessary to work with an outside firm to complete the transaction. Brokerage firms that internalize securities orders can also take advantage of the difference between what they purchased shares for and what they sell them for, known as the spread. For example, a firm may see a greater spread by selling its own shares than by selling them on the open market. Additionally, because share sales are not conducted on the open market, the brokerage firm is less likely to influence prices if it sells a large portion of shares."

Theory:

Fidelity has been one of the main reasons volume has been dry. By internalizing their stock purchases when apes buy, fidelity has the option to take that order to the open market or internalize that order off exchange. So this entire time Fidelity has been able to make BANK off of us. When the price is high they can choose to internalize their customers orders making a profit off of the spread. Doing this takes away volume by keeping buy orders off of the exchange having less of an affect on price. Then when the price gets dropped from shorting they slowly buy those shares back before the next rollover period which contributes to the slow rise in price leading up to the jump then dump.

This whole time we assumed that Fidelity was the good guy because they did not turn off the buy button. But to me it seems pretty convenient that one of the few brokers that didn't and was being pushed the hardest to transfer into is the only broker that uses internalization. Making them the perfect broker to keep volume low.

Summary:

Fidelity uses internalization as alternative to PFOF. Basically if i buy a share from them they can either take that to the open market or or sell me one of their shares off exchange. This impacts volume and price discovery.

Edit: accidentally stated fidelity was the ONLY broker that didn't turn off the buy button just meant it was one of the few

Note: was informed schwab now internalizes trades as well. Idk what others do the only article I could find was in 2019 when schwab CEO tried to call out fidelity so things could have changed since then

Note: couple people read the new agreement fidelity sent out and if you specifically choose where you want your order to be routed they have to route it through that exchange. If you don't choose then it looks like they can choose to internalize your order. So buying through IEX then transferring should still work. However posts have stated Fidelity has been restricted IEX order