Title: Price Discovery
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Just wanted to share some thoughts on Gamestop / it's price discovery and get a discussion going.

I've been thinking about how price discovery works for tickers like GME when Market Makers / Internalizers can provide "infinite liquidity" (Doug Cifu, Virtu). I used to think that Market Makers could arbitrarily assign prices to the stocks but now I think the price is primarily driven by institutional traders / investors as they move registered shares.

Per the SEC (Gary Gensler's remarks at a conference this year [https://www.sec.gov/news/speech/gensler-remarks-piper-sandler-global-exchange-conference-060822](https://www.sec.gov/news/speech/gensler-remarks-piper-sandler-global-exchange-conference-060822) ) the vast majority of retail trades (over 90%) are routed through wholesalers. As noted by Doug Cifu of Virtu (one of the wholesalers managing retail trades) Market Makers are able to provide nearly limitless shares of a security at or below National Best Bid and Offer
([https://www.youtube.com/watch?v=K064hJQ7fdI](https://www.youtube.com/watch?v=K064hJQ7fdI) start around 3:10). My understanding of how they are able to do that is by internalizing the trade - meaning they keep the order for the shares internally (the trade doesn't make it to lit markets). They then keep a ledger with your position and credit you the difference when you sell those shares later.

Now, price discovery should be a function of supply / demand. As the shares become harder to locate and the demand increases the price should also increase. It sure doesn't look like Gamestop is following those rules however, so what is happening?

From the Doug Cifu interview.

1. Market Makers can create "infinite liquidity" .
2. The price for these provided shares is at NBBO or better

If price is a factor of supply and demand, and here we are told supply can be infinite (at the behest of the market maker) at the current market price (or better) then it follows that the Market Maker has the ability to suppress the price by oversupply.

NOTE both of these have the effect of suppressing price discovery for RETAIL DRIVEN trades which are routed through the Market Maker.

So where does the price actually come from?

I'm not sure but I think it's actually from activity on the LIT exchanges. Lit exchanges are where the larger shareholders' (institutions, insiders) trades occur. Since THERE ARE ONLY SO MANY REAL REGISTERED SHARES, so supplying orders for registered shares forces a real transaction to occur (moving the registered shares from one investor to another). This is different from an internalized order (again over 90% of retail \[our\] trades) where there presumably is no actual exchange of registered shares.

Knowing that there are two things that retail traders do that most likely can improve price discovery. The first is Direct Registration of Shares as this forces real shares to be issued for the position (and thus forces a transaction with the real shares). The second is using directed trades to route through IEX. IEX is an exchange which places the order on the lit market. When orders are on the LIT market it forces wholesalers to compete with the other exchanges for the transaction and helps to prevent internalization (improving price discovery).

TL;DR

Retail is investing with monopoly money / fake shares except when they DRS or do directed trades (e.g. through IEX). Both DRSing and routing through the lit markets improve price discovery.

Market Makers are likely suppressing the price and having a significant effect on it, however I believe it is mostly by blunting the buy pressure from retail (through internalization). Meanwhile the major determinants of price at this moment is action happening on the LIT markets (institutional investors / insiders).