Title: Confessions of a Former Market Maker; not GME Specific but Relevant. (Thank you u/000Whynot)
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This technique works 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 the Company has solid fundementals and a bright future. Then the stock will do very well. And the activity that caused the situation will prove to even help the future stock activity because it created an audience."

Market Maker's Operating Procedure

The savvy long-term investors never chase stocks up. For the most part that is momentum players and daytraders where most of it or what follows is dumb money. Instead the long-term investors use a couple of simple strategies in order to position themselves. One is to find a stock no one immediately sees has huge potential and accumulate. Long-term investors are not interested in trading against the public mind or the dumb money. That's where the majority of the money can be made but even more can be made if the base of a stock is held extremely strong by investors. However the second is not to doubt the research which is the underlying basis for going long and holding.

More and more investors are winning the game nowadays despite all bashers that float through the Internet that has become part of the game. Floor traders of market makers often watch CNBC, news wires and bulletin boards in order to follow the market during trading session. OTC BB market makers (MMs) don't use fundamental and technical analysis. However, what they do realize is a lot of dumb money does use this newest nitch charting or TA (Technical Analysis) to run a stock either up or down. To the MMs this is like taking candy from a baby. Simply they will paint the tape and use whatever tactic to affect the charting bands. Thus the public and dumb money they will have eating out of their hands. Effectively the MMs can show a strong stock growing weak by manipulating the close price in order to generate selling volume, delaying trading time to manipulate trading activities, or even stalling the ask without honoring orders to hold a stock price.

MMs follow a simple code of business when making a market in a stock especially an OTC BB. That is the level that stocks will seek that yields the most volume. Now this is very important because they make money on the volume buying at the bid and selling at the ask. In other words, by making the market they are buying low and selling high. Now smart money adheres to that rule, so do all the market makers. They could careless whether the stock is at $83 or at $0.23. All they care about is the action thus being able to sell stock at the offer (The high) and buy stock at the bid (The low). To increase their profitability, they make the spread as great as possible on as many shares as they can especially if the volume falls off.

When they have mostly all "buy" orders, that's not the price that's going to yield the most volume. They need both buy and sells to get the maximum action. Remember, MMs play the volume. If the volume decreases and there are mostly Buys that become a one way volume, Buy volume. So what they do is let the stock run up to a price where it runs out of stea[redacted]s there that ews

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JoelDecember 21, 2016Blog Posts

I was an OTC MM for about 10 years ending in the late 80's. Since then I have been strictly an investor. Since I have not been that up to date in MM rules I will only make statements that I feel fairly confident are still accurate regarding these activities. By and large most MM don't have a clue nor do they care to learn, about the fundamentals of the stocks they trade.
They just try to make orderly markets. When dealing with BB stocks it is very easy for a MM to get trapped into being short in dealing in a fast moving market. Reason being; most of the MM's in this stock are what are called "wholesalers" this means they don't have retail brokers "working" the stocks.
So they have to rely on what's known as the "call" from larger retail houses. If a "Big" retail firm like an E-trade calls up a market maker to purchase say 5,000 shares of a stock, they expect to get an "execution" from that market maker. If he turns them down, or only gives a partial then the "Big" firm will go to another MM.
If this second MM "fills the order" then that "Big" firm has a moral obligation to continue to give future "business" in that stock to that MM who performed (his life blood). This will go on until he "fails" to perform and so on.
Contrary to popular opinion the "Big" firms Do NOT neccessarily go to the "Low Offer" to fill a buy order (Or high bid for a sell). They "Go" to who they think will perform to fill the order and expect that MM to "match" the "low offer" in the case of a buy (bid in the case of a sell). Even though this MM might in fact be the "high bid" and not really want to sell any more.
As a wholesaler he must perform or he will get a reputation as a "non-performer" with the "Big" houses and will cease getting "calls" which means he will soon go out of business. I mentioned above that this activity is very significant to BB stocks. I say this because most of the trades in these BB stocks are "unsolicited" and are done through discount houses.
With the above groundwork laid, let me try to explain how market makers [redacted]e Company;

mostly Buys that become a one way volume, Buy volume. So what they do is let the stock run up to a price where it runs out of steam. They fill all the buy orders there that they can and then comes the pullback one way or another naturally or induced. During the pull back they can buy tons of shares and flip them to those averaging down or trying to catch the bounce. At some price, the stock will be relatively stable and yield the most volume. Now that is the average price you will see

The average price is the point where a stock seeks a level where MMs can profit on the most volume. So during the day that is the price that MMs and momentum/day traders want to see the stock at. Why? Because they know the public and dumb money was chasing the price thing up. Most of the time, the MMs love a flurry of Market Orders which is a dead sign of an artificial run or momentum. Merely it is money in the bank for them. Most get hung in a momentum or day trade or by the tactics of Market makers, who are in the business to screw the public every chance they get and the NASD is not going to do anything about it. They are merely making the market liquid is there reasoning.

The market makers have created an added complication to the OTCBB's chaos of the already volatile intra-day price movements created by dumb money, momentum and day-traders. MMs can not relate to long-term holders in the OTC BB. That makes absolutely no sense what so ever. They feel a large percentage of trades in the OTC BB market consist of short-term or day-trades, MMs merely view the barrage of buy and sell orders as relatively neutral to the market. How they figure it is when the average dumb money buys shares in a company, the MMs feel or rather know with some certainty it is very likely that dumb money will want to sell back those shares relatively quick on the slightest drop.

Now somewhat comfortable with this logic the MMs merely short sells into the buying and attempts to take the stock down in an effort to "shake out" the weak. Since it is tough to know for sure whether a move is the beginning of a trend, or a routine shake out, this type of deception works quite well for the MMs. What the long-termers do to a stock is surprise the MMs because instead of falling the shorting has no effect and the price goes up. Now that puts the MM at selling low through shorting and thus having to buy high in order to cover.

Boy, when this happens, the MMs are not very happy campers. The investors and traders are supposed to be doing that no them. Now it becomes time to pull out every trick and tactic in the book in order to attempt to get a Bear Raid at every dollar mark or percent from where the stock started. Could be a penny in smaller priced securities? What MMs do is give you a chance to make a small amount of money for your momentum and day trading style by shorting it at these levels and trying to get a bear raid each time. Each failure is compounding the MMs short position so they let it go to the next level. Now come more deliberate tactics MMs use to coerce Bear Raid or panic selling.

Once the MM is caught short and the strength of the buy is overpowering [redacted] short position.

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With the above groundwork laid, let me try to explain how market makers get short even if they like the Company;

Lets say that a stock (shell) has been lying quietly at $.25 bid $.50 offered. A limit order comes into one of the MM's to Buy at $.50 for a thousand shares. Prior to this trade that MM may be "flat" (neither long or short any shares). He fills the order and is now short 1,000 shares. He may raise his bid hoping to find a seller to "flatten" out his position. But before he realizes it a wave of buyers have come in and cleared out all the $.50 offers. Now the stock is $.50 bid .75 offered. Here comes that "Big" firm he just sold the 1,000 shares to at .50 with another bid for 1000 at .75. He makes this print. Now he is short 2,000 at an average of .625. The market keeps moving and now its .75 bid 1.00 offered. Now he has to make a decision.

Just like investors, MM Hate to take a loss. So 9 times out of 10 he will now sell 2000 at 1.00 making him short 4000 but with an average .81. At this time he would love to see a seller at .75 so he can cover his short and make a few bucks.

But instead the market keeps moving up. Now it is 1.00 to 1.25 and here comes the buyer again at 1.25. He doesn't want to lose the call so now he needs to sell 4,000 at 1.25 to keep his break even point above the bid. Now he is short 8,000. Market moves up to 1.25 bid 1.50 offer here comes the buyer now he feels he must sell 8000 here because "stocks don't go up forever".

Now he is short 16,000. And so on and so on. If the stock keeps moving up, before he realizes it he could be short 50k or 100k shares (depending how big his bank is).

Finally the market closes for the day and on paper he may look all right in that his "break even" price may be around the closing price. But now he has to figure out how to entice sellers so he can cover this short. It is important to note that if this happened to one MM it has probably happened to most all of them.

Some ways MM's entice sellers; 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. 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.

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selling.
Once the MM is caught short and the strength of the buy is overpowering the MM will want to cover his short position. So the MMs call up one of his friendly MMs and says some like “the weather is sure rough today.” The MM along with the other “friendly MM initiates a down tick about the same time. Now this can also be done with a certain amount of shares such as an infamous 100 shares flag. This down tick gives the illusion of weakness designed to hopefully begin the bear raid of selling. The fickle, fearful, day trader, momentum and short term begin to sell out allowing the MM to cover his short position at lower prices. They will move it down quickly to get it to a price of least financial damage. Problem they have is long-term investors in the OTC BB. They start accumulating and buying comes flying in when they take it too far thus the MMs took it to the point of volume again and not only investors the other MMs step in the make money on the spread.
Alas the poor MM does not get to cover. Now comes various tactics like stalling, boxing, or even locking the Bid and Ask for a while.
Of course, MMs aggressively deny any sort of collusion designed to fix quotes or spreads, but a recent SEC investigation tells another story.
MMs have a vast resource of tactics and it would take probably more than my lifetime to figure them all out.
So how do investors somehow manage to overcome the obvious deception in OTCBB arena? One answer is indirection trading style by going long which the MMs do not expect. In the war between investors and public companies on the OTC BB vs the MMs, if the MMs have all the advantages due to position or other factors, direct confrontation such as momentum or day trading hitting the stock is a definite death sentence.
However, an indirect approach tends to weaken the path of least resistance before slowly overcoming it. The most effective way is long-term investors slowly accumulating and holding thus drawing the MMs out of its defenses making them as naked as their short position. This is war so this slow accumulation and holding for the long term easily achieves the desired effect to force MMs to cover and knock off the tactics or bury themselves deeper.
The MMs when caught will especially use every trick and tactic in the book to get a Bear Raid thus playing on the individual fear of most people. The MMs feel they have information and position advantages over the investors as long as the holding of the stock is in weak hands or short term holders. Since they are OTC BB MMs who believe all OTCBB companies are not worth investing and management is ineffective regardless what is happening within the company.Furthermore, MMs know they are in the position to impose a great deal of influence in OTC BB stocks trading when it suits their needs.
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This inherent power of position enables the MMs to move the markets at any time up or down. As a result, the only way to draw them out of their favorable position is going long. Now this does not mean just any company but to effectively nail the MMs, Longs must find the great company on the floor and accumulate long before the MM tactics and games begin.
Market Maker Speaks Out:"Ways of a Market Maker"
Author: Unknown

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