Title: Personally, I like metaphors… ■
Author: disoriented_llama
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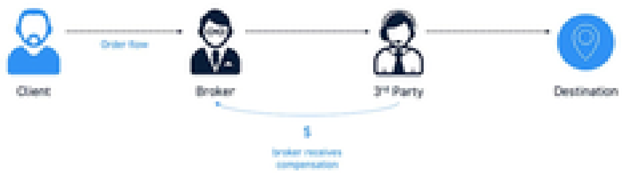
THE RED PILL

THE SIMULATED PLACE WE CALL THE MARKET

"THIS IS YOUR LAST CHANCE. AFTER THIS, THERE IS NO TURNING BACK. YOU TAKE THE BLUE PILL – THE STORY ENDS, YOU WAKE UP IN YOUR BED AND BELIEVE WHATEVER YOU WANT TO BELIEVE. YOU TAKE THE RED PILL – YOU STAY IN WONDERLAND, AND I SHOW YOU HOW DEEP THE RABBIT HOLE GOES. REMEMBER, ALL I'M OFFERING IS THE TRUTH – NOTHING MORE."

PAYMENT FOR ORDER FLOW

Payment for order flow (PFOF) is the beneficial return a broker receives when directing orders to a particular market maker or through a consolidating/clearing broker-dealer. A small payment, usually fractions of a penny per share, is given to the brokerage firm as compensation. Orders from a commission free broker are sent Over the Counter (OTC) to a consolidating/clearing broker-dealer to be filled as an internalized order execution **which does not impact price** due to it being a broker-to-broker trade.

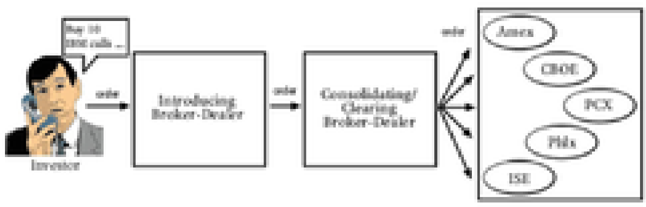


The practice of Payment for Order Flow has been banned in Canada and the UK.
https://www.cfainstitute.org/-/media/documents/article/position-paper/payment-for-order-flow-united-kingdom.ashx

RETAIL INVESTOR PRICE IMPACT USING PFOF ROUTING

When a retail trader orders 100 shares of XYZ, the **introducing broker-dealer** then sells the order flow to a **consolidating/clearing broker-dealer**. Clearing brokers provide shares to the introducing brokers from their current inventory, which is later hedged from an outside market maker or cleared internally. Clearing brokers by nature have the capability to self-clear equities within the same venue. For instance, if 100 shares of XYZ sell orders, and 100 shares of XYZ buy orders enter the venue, the broker could then clear both orders in house. **Essentially, in the scope of the retail trader to the clearing broker, share sales have no impact on the stock price. The retail order price impact should be reflected later in the hedging process, "if orders are processes in the lit marked".**

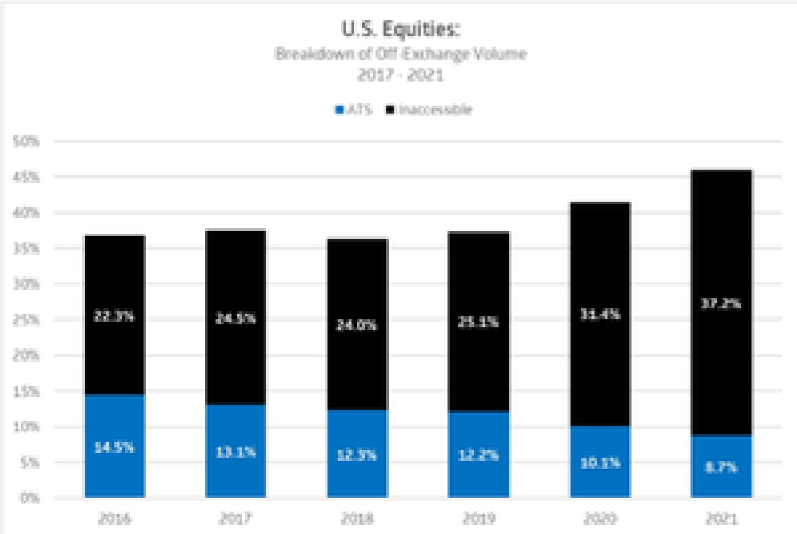
If a consolidating/clearing broker-dealer were to execute orders in an ATS, such as private dark pools, with a market maker, opportunities of price suppression present themselves through block orders.



https://www.sec.gov/news/studies/ordpay.htm

THE PAYMENT FOR ORDER FLOW SCAM

With **OTC trades nearly dominating the current market at 37.2%**, we can assume most of this liquidity is derived from Payment for Order Flow. As mentioned previously OTC broker-to-broker trades are not reported, such in the case of commission free broker to clearing broker.



https://www.marketsmedia.com/cowen-algos-adjust-for-increased-off-exchange-trading-volume/

With the above knowledge of the potential ability to manipulate price action through buy suppression in the dark pool, through clearing brokers and electronic market maker trades, we can assume the attractiveness of increasing the amount of OTC liquidity make sense. **Essentially the more Payment for Order Flow a broker can receive the more they can route transactions to the dark pool to potentially be manipulated.**

37% OF THE US EQUITIES CAN BE USED TO MANIPULATE THE PRICE.

BROKER-TO-BROKER TRADE

Orders from a commission free broker *(introducing broker-dealer)* are sent **Over the Counter (OTC)** to another broker *(consolidating/clearing broker-dealer)* to be filled as an **"internalized order execution". This execution does not impact price due to it being a broker-to-broker trade.**

BROKER TO MARKET MAKER

After the broker-to-broker trade has been complete, the said clearing broker then purchases the needed shares from a market maker, which could potentially take place in an Alternate Trading System (ATS) via the **Dark Pool** in **Dark Pool Blocks** and can be used to suppress buying pressure.

PAYMENT FOR ORDER FLOW AND THE BROAD MARKET

"In 2020, $2.60 billion were paid to the seven leading retail brokerages TD Ameritrade, Robinhood, E*Trade, Charles Schwab, Webull, TradeStation and Ally Invest. TD Ameritrade and Robinhood made the most money by selling order flow to venues like Citadel Securities, Global Execution Brokers, and Virtu Americas. The average quarterly payment for order flow in 2020 was $0.65 billion."

PAYMENT FOR ORDER FLOW GREW TO $1.04 BILLION IN Q1 2021

PFOF PER BROKER	*2020 TOTAL*	*2021 Q1 TOTAL*
TD Ameritrade	$ 1,148,550,502	$ 428,923,484
Robinhood	$ 687,094,992	$ 330,862,253
E*Trade	$ 402,493,959	$ 139,403,087
Charles Schwab	$ 245,463,984	$ 78,081,154
Webull	$ 63,853,903	$ 46,021,618
TradeStation	$ 41,844,854	$ 17,143,896
Ally Invest	$ 15,270,053	$ 4,561,965
Grand Total	**$ 2,604,572,249**	**$ 1,044,997,457**

https://daytradingz.com/payment-for-order-flow/

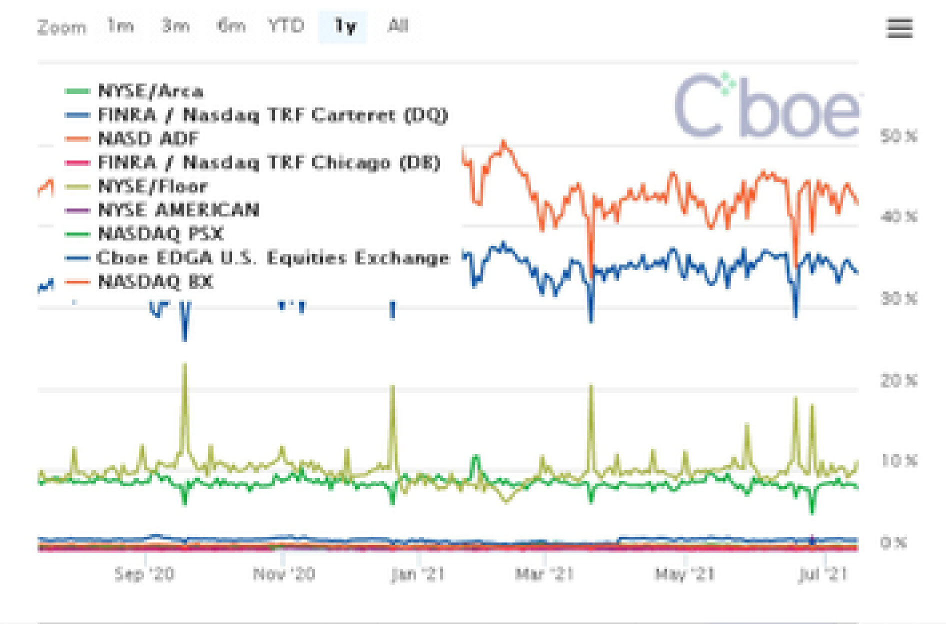
DARK POOLS

"Dark pools are private exchanges for trading securities that are not accessible by the investing public. Also known as "dark pools of liquidity," the name of these exchanges is a reference to 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 obtain adverse prices for their trades."**
https://www.investopedia.com/articles/markets/050614/introduction-dark-pools.asp

"The biggest advantage of dark pools is that market impact is significantly reduced for large orders."
https://www.investopedia.com/articles/markets/050614/introduction-dark-pools.asp

DARK POOLS VOLUME CHART FOR DAILY VOLUME

Top two lines on the graph are dark pools. The bottom two are lit exchanges. As you can see barley ANY volume goes to a lit exchange. therefore, the market is so untransparent. If we flip those graphs around, we will have that transparent market everyone wants.



THE MARKET MATRIX

If you have been able to make it this far, you have been offered a blue and a **red** pill, and you just took the **red** pill. **The current state of the US Market is a mere illusion to the Retail Investor**. The sheer amount of liquidity funneled to and owned by consolidating/clearing broker-dealers using payment for order flow, provides ammunition to the market movers to potentially manipulate the market in their favor. **The only way a retail investor can succeed, is by feeding off the backs of the large whales, if the sentiment aligns.**

By enabling payment for order flow, a retail trader then loses the ability to choose where their orders are routed, thus providing liquidity for potential market manipulation.

THE FINANCIAL FOOD CHAIN – WHO MAKES THE MONEY?

THE SHARKS 1%

By allegedly being able to control the market or have insight on the market movements, this question answers itself.

THE WHALES

By financially being able to pay for slight market insight through news feeds, dark pool trades blocks/sweeps, and high-speed data, certain groups can profit from the 1% movement.

Often, to make profit, these types of traders will diversify their expenses by charging other traders in the form of services. This type of information can easily be manipulated or by the alleged controllers of the market through orders spoofing or traps. Some of the most informational trading happens OTC ATSs that are not openly visible to the public.

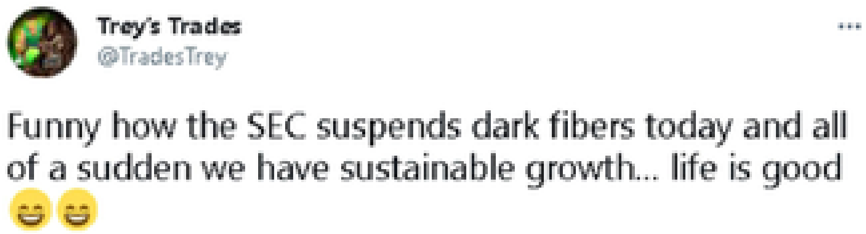
BOTTOM FEEDERS

Retail Traders are the liquidity and life blood of the market. We as retail traders provide money to the market by purchasing market assets. We work hard for our money and when we have conviction in a company, we invest into the stock market. Retail traders are offered little to no market insight and often misled by the media to persuade market direction at the cost of the retail bag holder. With having little to no insight often we rely on media and other services to help gain better sentiment, which could be abused or misused to profit from the lower-class trader. The Market as we know it is an illusion and we are fueling it with our conviction, blood, sweat, and tears.

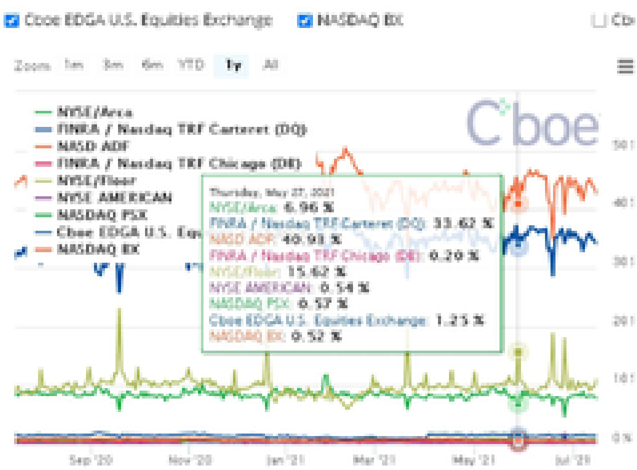
DARK FIBERS

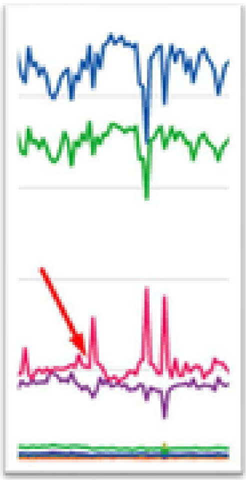
What is a dark fiber? Dark Fiber is a direct connection fiber optics cable it provides the highest bandwidth and fastest results. This literally allows them to see your data before they go public by 10-14 milliseconds. Which in high frequency trading is a massive amount of time.

DARKFIBER SUSPENSION



Dark fibers were briefly disconnected in May and were prevented from being able to connect to third party data feeds (OTC Market Feeds). **When the feeds were disconnected this made it harder for them to fill orders internally.** Without the extremely low latency they were unable to hold the best pricing forcing them to use other exchanges with a bedder bid/ask. As seen on the graph below.





https://www.sec.gov/rules/sro/nyse/2021/34-91386.pdf

SMOKING GUN

From the data above we can see that when the Dark Fibers where disabled, we did not see a natural transitional shift from the dark pools to the lit market. In the case of May, we can see a spike in the lit market without the drop in the Public Dark Pools, thus meaning the shift came from a private ATS group such as Electronic Market Maker Dark Pools. This smoking gun shows the blatant funneling of Payment for Order Flow fueled by OTC trades from the clearing broker to the Electronic Market Maker, all to be allegedly manipulated to move the market in the sentimental direction they choose. We are in the Matrix and the current Market as we know is just a simulation.

TL/TR

PFOF allows for the potential of price suppression and market manipulation because it potentially allows Market Makers and Clearing Brokers to control most the flow of the entire market. It also allows things like front-running and other forms of market manipulations with the advances in technology in things like high frequency trading and dark fibers. This allows hedge funds to see market data before it becomes public knowledge. Internalization and Marker Maker Dark Pools house data is that is "inaccessible" to the public. Payment for Order Flow becomes an over-the-counter trade, this allows for the market maker to use the electronic market marker type dark pools which allows room for potential Market Manipulation.

If more orders went through the lit exchange instead of potentially being manipulated in the PFOF chain, we could eventually start to disconnect from this Matrix we call the Market.

@Xx_WiReD_xX @Acbiggums

B. Payment for Order Flow

Citadel Group urges the Commission to ban payment for order flow. This practice distorts order routing decisions, is anti-competitive, and creates an obvious and substantial conflict of interest between broker-dealers and their customers. Broker-dealers accepting payment for order flow have a strong incentive to route orders based on the amount of order flow payments, which benefit these broker-dealers, rather than on the basis of execution quality, which benefits their customers. Furthermore, the parties making such payments (either voluntarily or through an exchange-mandated program) are forced to find other ways to recoup the amounts of such payments, whether through wider spreads or a reduction in other benefits that otherwise could, and should, be provided to customers.

Payment for order flow is a practice that on its face is at odds with a broker-dealer's obligations to its customers. A broker-dealer has a fiduciary obligation to obtain the best execution reasonably available for its customers' orders under prevailing market conditions. We do not believe that a broker-dealer that accepts payment for order flow and does not pass such payments on to its customers (either directly or through reduced execution fees or commissions) can consistently fulfill its best execution obligations.

In practice, the conflict of interest caused by payment for order flow may lead broker-dealers to execute customer options orders at a "defensible" price, rather than aggressively pursuing the best possible price and seeking price improvement opportunities. Gradually, this results in the erosion of market efficiency and wider bid/ask spreads. Even in cases where execution price may not be affected, public customers whose order flow is being sold to the highest bidder, may be left with the perception that they could have gotten better execution in the absence of these payments.

Because payment for order flow creates fundamental conflicts of interest that cannot be cured by disclosure, the Commission should ban payment for order flow altogether. It is crucial that this ban include not only exchange-sponsored programs, but also payment for order flow arrangements entered into privately between order flow

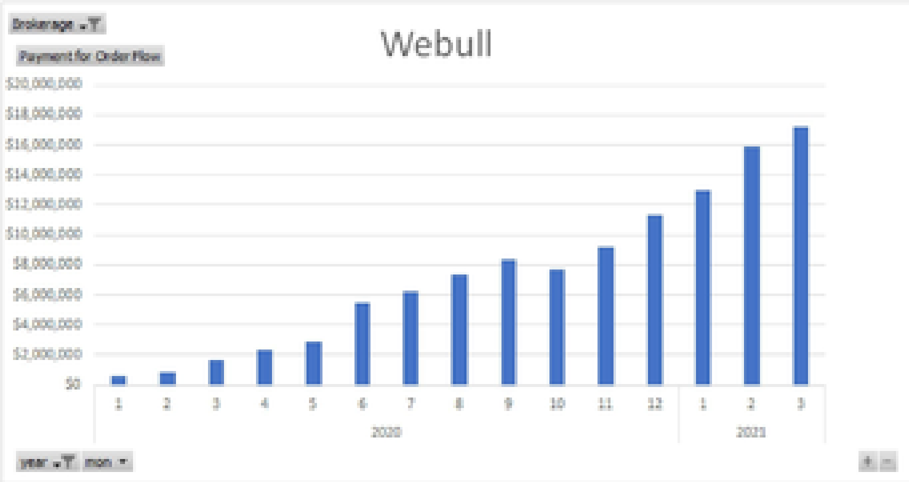
providers and market centers. Individually negotiated payment for order flow arrangements lack transparency and are more difficult to police. For this reason, a ban of only exchange sponsored payment for order arrangements would be worse than the status quo on the ISE and CBOE because these markets have multiple independent quoting firms.

If the Commission continues to allow the practice of payment for order flow in any form, the Commission should require that broker-dealers pass on to their customers the benefit of any such payments, regardless of the form the payment takes. If the Commission takes this approach, the Commission would need to develop a framework for identifying, valuing, and policing non-cash benefits provided in lieu of, or in addition to, actual cash payments or credits. Because a market maker can provide a wide range of non-cash benefits that may be difficult to police and value (*e.g.*, entertainment or discounts on unrelated services), such an undertaking would be difficult at best—another reason why an outright ban on payment for order flow is preferable.

https://www.sec.gov/rules/concept/s70704/citadel04132004.pdf

WEBULL PAYMENT FOR ORDER FLOW EXAMPLE

The Webull payment for order flow is low compared to the competitors, but it shows the strongest percentage gains over the past 15 months. The PFOF in March 2021 was 27 times higher compared to January 2020. March 2021 was also the strongest PFOF month in the history of Webull, with a total of $17 million received. With this steady growth, it is most likely that they will outrank other brokers in the mid-term.



https://daytradingz.com/payment-for-order-flow/

BERNIE MADOFF AND PFOF

NOW YOU CAN'T TALK ABOUT PFOF WITHOUT GOOD OLD BERNIE MADOFF.

In 2008 Madoff Investment Securities LLC. was the 6th largest Market Maker in the S&P 500. On March 12, 2009, Madoff pleaded guilty to 11 federal felonies and admitted to turning his wealth management business into a massive **Ponzi Scheme**.
https://en.wikipedia.org/wiki/Bernie_Madoff

This was the largest financial Ponzi Scheme in history. It was Worth over **64.8 billion dollars.** Bernie Madoff was the Chairman of the **NASDAQ Exchange.** He advanced the use of **electronic trading platforms** and integrated Payment for Order Flow into the US Market which he described as a **"legal kickback"**.

https://en.wikipedia.org/wiki/Kickback_(bribery)

DARK POOLS DON'T MOVE PRICES.

"For dark pool customers, a dark pool transaction "mitigates market impact." That means that they can avoid bad fills and "slippage" (filling an order at $5.00, $5.01, $5.02, etc.) by trading solely with other large-block holders and turning many small transactions into one large transaction."

"Often, for large funds, this ends up cheaper than trading on the exchange."

"Unfortunately for the rest of us, this means that the price we see on the exchange isn't quite what it used to be. **Without larger investors proportionally moving the price on the exchange by buying or selling, the process of price discovery (the purpose of a national market system) doesn't really work the same way."**

"Buying pressure, selling pressure, fund movements, liquidity, momentum - everything that you thought you knew about the way price and volume are related becomes less relevant as now 30% of volume is traded away from the exchange."
https://seekingalpha.com/article/3824496-you-really-need-to-care-dark-pools

August 11th, 2014, nearly 38M shares ($1.49B) were sold short in dark pools - Kinder Morgan (NYSE:KMI)

Figure 1 sqzme.co

You'd think it'd be hard to sell short 27% of a day's volume (See Figure 1)**, right? But apparently, it's possible. What about 82%?**

Figure 2 sqzme.co

Look familiar? Time to pop a Lemmon 714, I'm starting to have flashbacks...