**3 Level of Stock Data**

**What is Level 3?**

Level 3 is the highest level of quotes provided by a trading service and gives the institution the ability to enter quotes, execute orders and send information. Level 3 service is restricted to [National Association of Securities Dealers](https://www.investopedia.com/terms/n/nasd.asp)(NASD) member firms that function as registered [market makers](https://www.investopedia.com/terms/m/marketmaker.asp).

**Understanding Level 3**

A level 3 quote allows a person to enter into best execution trades as prices are being updated in real time. Level 3 and its associated quotes are closely related the operations of the stock market. All publicly traded equities have a [bid price](https://www.investopedia.com/terms/b/bidprice.asp)and an [ask price](https://www.investopedia.com/terms/a/ask.asp) when they are bought and sold. The bid is the highest price an investor is willing to purchase a stock. The ask is the lowest price in which an investor is willing to sell a stock.

Each time a bid price or ask price is disseminated it is considered a quote. The U.S. stock market has three tiers of quotes: level 1, level 2 and level 3. Looking at these quotes allows an investor to see how a specific stock is performing over time as well as where the market action is consolidating.

**Examples of Level 3 Quotes**

All three levels of quotes build on top of each other. Level 1 quotes provides investors with the highest bid and the lowest ask prices for an individual stock. These types of quotes are the most common and is what private investors see when they request information from their financial services company.

Level 2 quotes provide the same bid and ask information but also show the bid and ask prices for each individual market maker. This allows investors to identify the market maker with the lowest bid/ask spread, which is important for larger investors who conduct high volume and [high frequency trades](https://www.investopedia.com/terms/h/high-frequency-trading.asp).

Level 3 quotes provide all the information and services of level 1 and level 2 quotes. In addition, level 3 quotes also grant an investor the ability to enter or change quotes, execute orders, and send out confirmations of trades. These types of quotes are reserved for registered brokers and financial institutions. Market makers, for example, participate in level 3 quotes, which allows them to execute customer orders.

**How Quote Levels Interact**

All brokerages and financial institutions have best execution requirements on behalf of their customers. This means that they are required to provide their customers with the best stock price currently available. If a private investor, for example, wants to invest in Apple stock, he would see the level 1 bid and ask prices listed on his broker's online trading portal. When the investor initiates an order to purchase the stock, the broker uses level 3 quotes to give that investor the best possible price. So the deeper information contained in level 3 quotes is used to the benefit of the investor even though he is only seeing level 1 quotes.