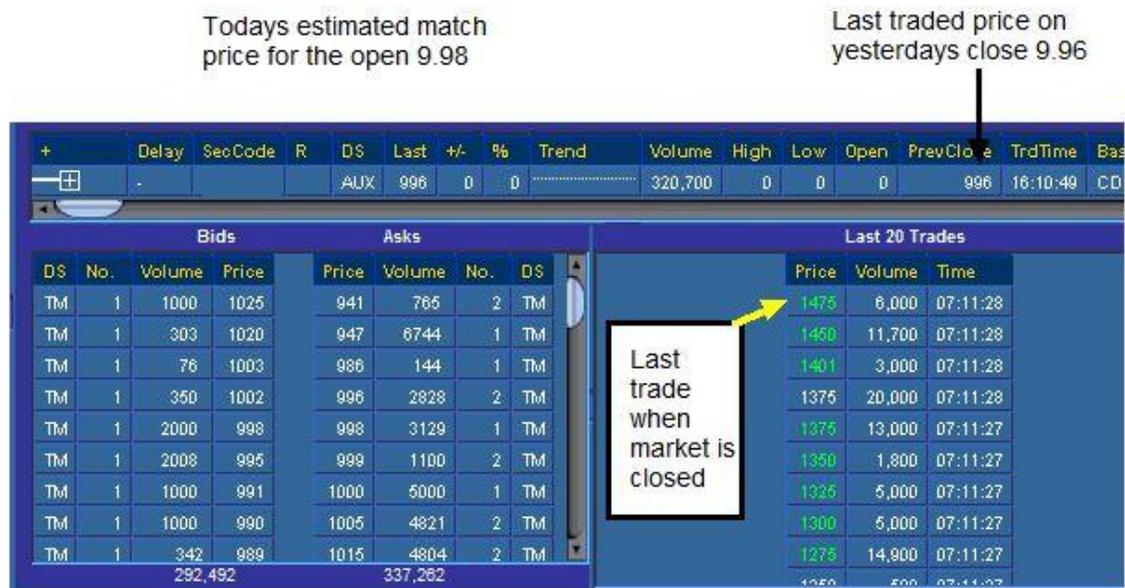


# MYSTERIES OF THE ORDER LINE

By Daryl Guppy

When traders log onto the order line screen before the open of trade they sometimes see a record of trades that have taken place after yesterdays close and before the open of todays trade. That's puzzling. Its even more annoying when the prices traded at 7:00 in the morning are substantially higher than the estimated match price for todays opens or the close from yesterday.



This screen shot shows a typical example. Yesterdays close was \$9.96. Todays estimated match [price is \$9.98. The last trade, this morning at 7.11 am was at \$14.75. Why?

The explanation falls into 2 parts. The first part is an acceptable aspect of trading. The settlement trades at \$14.75 may be the exercise of options at the \$14.75 strike price. The options market is an open and transparent process. Settlement of these option trades is not hidden from the market.

The second part is not acceptable. The trades at \$14.75 may reflect the activity taking place in the dark pools. These are private off-market trading venues dominated by the institutional traders and run by banks and other shadow banking institutions. Trading takes place between customers away from the public <lit> market. When the public market is closed, these trades are reported to the public market and show up as these after hours trades.

Your broker is under scrutiny for any <crossed> trades. This is where the broker has two customers in the same stock. One wants to sell and the other wants to buy at the same price. The broker <crosses> the trade internally without placing the buy or sell order into the market. Very very bad say the regulators.

The same regulators allow the shadow banking sectors, the dark pool operators, to do exactly the same on a massive scale without public oversight or regulation. This is all anonymous trading.

The exchanges support these dark pools by offering Block Trading facilities. These facilities allow the institutions to conduct trades under the cloak of anonymity and then report to the public market after market close. Retail traders never get a chance to participate in these markets.

We believe this is a fundamental attack on the markets role as a mechanism for price discovery. These hidden, anonymous markets are beyond the scrutiny of regulators. They create the conditions that facilitate inside trading. They destroy the idea that the public market reflects a true valuation of price.

Of course, this isn't going to change. Traders can only look at these pre-open order screens and weep.