

Limit orders and Level 1 data :
Passive Buy and **Sell** market players



Outline

- Basics on **Limit orders**.
- Best Limit **Bid** and **Ask** orders on **Level 1**.



What is a Limit Order?

Limit orders will be used by **patient buyers** and **sellers** that are willing to wait for price to come to their desired level to be filled.

Limit orders enable **patient buyers** and **sellers** to **buy** and **sell**, respectively, the specific **pre-defined number of shares** at **pre-specified prices** (or better) - **whenever it happens in time**.



Limitation of the Limit Order:

*The price level may never come to the desired price level of the **buyer** or **seller** specified by the limit order and, thus, may never get filled.*

Limit Orders by Buyers are called "Bids".

Buyers that are providing **Demand** for the shares of the stock will place their **Buy limit orders** at **LOWER prices** than the *current price of shares*.

Buyers want to **buy** their shares at lower prices to get the best deal they can get to own shares of a stock in anticipation that price will go **UP** to make profits.

The Limit orders by **Buyers** in the stock market are called "**Bids**".



Limit Orders will be filled when price “hits” them.

The Limit buy **Bid** orders will be filled if price comes **DOWN** to the desired prices or below.

If this happens, we say that “*Bids were hit*”.

NOTE:

If a Buyer places a limit **Bid** order at \$40, while current price is \$38, it will be filled at that moment because the **current price is below** the placed **Bid** Limit order.



Limit Orders by **Sellers** are called "**Asks**".

Sellers that are willing to sell the shares of the stock that they already own will place their **Sell limit orders** at **HIGHER prices** than the *current price of shares* providing **Supply**.

Sellers want to **sell** their shares at higher, highest prices they can get to make the largest **profit** on shares they currently own, shares which they bought at some point in the past.

The Limit orders by **Sellers** in the stock market are called "**Asks**".



Level 1 offers only information about current bid and ask.

Presentations of Level 1 are same/similar on all platforms.

| Exchange | Price | Quantity |
|----------|---------|----------|
| MEMX | 193.500 | 2 |
| NSDQ | 193.500 | 0 |
| BATS | 193.500 | 2 |
| NSDQ | 193.500 | 1 |
| NSDQ | 193.500 | 1 |
| NSDQ | 193.500 | 1 |
| NSDQ | 193.490 | 1 |
| EDGX | 193.540 | 1 |
| ACB | 193.490 | 0 |
| ACB | 193.540 | 0 |
| ARCA | 193.480 | 2 |
| ARCA | 193.550 | 2 |
| NSDQ | 193.480 | 2 |
| NSDQ | 193.550 | 1 |
| NSDQ | 193.480 | 1 |
| ACB | 193.550 | 1 |
| EDGX | 193.480 | 1 |
| MEMX | 193.550 | 1 |
| NSDQ | 193.470 | 1 |
| NSDQ | 193.560 | 2 |
| ACB | 193.470 | 0 |
| BATS | 193.560 | 1 |
| NSDQ | 193.460 | 5 |
| ACB | 193.560 | 0 |
| ACB | 193.480 | 1 |
| NYSE | 193.570 | 3 |
| NYSE | 193.480 | 1 |
| NSDQ | 193.570 | 2 |
| NSDQ | 193.450 | 10 |
| ACB | 193.570 | 2 |
| ACB | 193.450 | 2 |
| ACB | 193.580 | 1 |
| MIAA | 193.450 | 1 |
| NSDQ | 193.580 | 0 |
| NSDQ | 193.440 | 1 |
| NSDQ | 193.590 | 1 |
| ACB | 193.440 | 0 |
| ACB | 193.590 | 0 |
| ACB | 193.430 | 2 |
| NSDQ | 193.600 | 1 |
| NSDQ | 193.430 | 1 |
| CHX | 193.600 | 1 |
| NSDQ | 193.420 | 4 |
| ACB | 193.600 | 0 |
| NSDQ | 193.420 | 0 |
| NSDQ | 193.610 | 1 |
| NSDQ | 193.410 | 32 |
| PSX | 193.610 | 1 |
| ACB | 193.410 | 5 |
| ACB | 193.610 | 0 |
| ACB | 193.400 | 5 |
| NSDQ | 193.620 | 1 |
| NSDQ | 193.400 | 3 |
| ACB | 193.620 | 0 |
| EDGA | 193.400 | 1 |
| NSDQ | 193.630 | 3 |
| NSDQ | 193.390 | 2 |
| ACB | 193.630 | 0 |
| ACB | 193.390 | 0 |
| NSDQ | 193.640 | 5 |
| NSDQ | 193.380 | 2 |
| ACB | 193.640 | 1 |
| NSDQ | 193.370 | 5 |
| NSDQ | 193.650 | 2 |
| ACB | 193.370 | 0 |
| ACB | 193.650 | 0 |
| NSDQ | 193.360 | 1 |
| NSDQ | 193.660 | 2 |
| ACB | 193.350 | 11 |
| MIAA | 193.660 | 1 |
| NSDQ | 193.350 | 3 |
| NSDQ | 193.670 | 1 |
| NSDQ | 193.340 | 6 |
| ACB | 193.670 | 0 |
| ACB | 193.330 | 4 |
| NSDQ | 193.680 | 3 |
| NSDQ | 193.330 | 2 |
| NSDQ | 193.690 | 6 |
| NSDQ | 193.320 | 1 |
| ACB | 193.690 | 0 |
| ACB | 193.320 | 0 |
| NSDQ | 193.700 | 2 |
| NSDQ | 193.310 | 2 |
| NSDQ | 193.710 | 1 |
| ACB | 193.310 | 0 |
| ACB | 193.710 | 0 |
| NSDQ | 193.300 | 4 |
| NSDQ | 193.720 | 1 |
| ACB | 193.300 | 3 |
| NSDQ | 193.730 | 1 |
| NSDQ | 193.290 | 1 |
| ACB | 193.730 | 0 |
| ACB | 193.290 | 1 |
| ACB | 193.740 | 3 |
| ACB | 193.280 | 6 |
| NSDQ | 193.740 | 1 |
| NSDQ | 193.280 | 4 |
| NSDQ | 193.750 | 3 |
| NSDQ | 193.270 | 1 |
| ACB | 193.750 | 0 |
| ACB | 193.270 | 0 |
| NSDQ | 193.760 | 1 |
| NSDQ | 193.260 | 6 |
| NSDQ | 193.770 | 1 |
| NSDQ | 193.250 | 11 |
| BYX | 193.770 | 1 |
| ACB | 193.250 | 2 |
| ACB | 193.770 | 0 |
| NSDQ | 193.240 | 32 |
| NSDQ | 193.780 | 3 |
| ACB | 193.240 | 0 |
| ACB | 193.780 | 0 |
| ACB | 193.230 | 0 |
| NSDQ | 193.790 | 1 |

Level 1 data
in DAS

| Exchange | Price | Quantity |
|----------|---------|----------|
| MEMX | 193.500 | 2 |
| NSDQ | 193.500 | 0 |
| BATS | 193.500 | 2 |
| NSDQ | 193.500 | 1 |
| NSDQ | 193.500 | 1 |
| NSDQ | 193.490 | 1 |
| EDGX | 193.540 | 1 |
| ACB | 193.490 | 0 |
| ACB | 193.540 | 0 |
| ARCA | 193.480 | 2 |
| ARCA | 193.550 | 2 |
| NSDQ | 193.480 | 2 |
| NSDQ | 193.550 | 1 |
| NSDQ | 193.480 | 1 |
| ACB | 193.550 | 1 |
| EDGX | 193.480 | 1 |
| MEMX | 193.550 | 1 |
| NSDQ | 193.470 | 1 |
| NSDQ | 193.560 | 2 |
| ACB | 193.470 | 0 |
| BATS | 193.560 | 1 |
| NSDQ | 193.460 | 5 |
| ACB | 193.560 | 0 |
| ACB | 193.480 | 1 |
| NYSE | 193.570 | 3 |
| NYSE | 193.480 | 1 |
| NSDQ | 193.570 | 2 |
| NSDQ | 193.450 | 10 |
| ACB | 193.570 | 2 |
| ACB | 193.450 | 2 |
| ACB | 193.580 | 1 |
| MIAA | 193.450 | 1 |
| NSDQ | 193.580 | 0 |
| NSDQ | 193.440 | 1 |
| NSDQ | 193.590 | 1 |
| ACB | 193.440 | 0 |
| ACB | 193.590 | 0 |
| ACB | 193.430 | 2 |
| NSDQ | 193.600 | 1 |
| NSDQ | 193.430 | 1 |
| CHX | 193.600 | 1 |
| NSDQ | 193.420 | 4 |
| ACB | 193.600 | 0 |
| NSDQ | 193.420 | 0 |
| NSDQ | 193.610 | 1 |
| NSDQ | 193.410 | 32 |
| PSX | 193.610 | 1 |
| ACB | 193.410 | 5 |
| ACB | 193.610 | 0 |
| ACB | 193.400 | 5 |
| NSDQ | 193.620 | 1 |
| NSDQ | 193.400 | 3 |
| ACB | 193.620 | 0 |
| EDGA | 193.400 | 1 |
| NSDQ | 193.630 | 3 |
| NSDQ | 193.390 | 2 |
| ACB | 193.630 | 0 |
| ACB | 193.390 | 0 |
| NSDQ | 193.640 | 5 |
| NSDQ | 193.380 | 2 |
| ACB | 193.640 | 1 |
| NSDQ | 193.370 | 5 |
| NSDQ | 193.650 | 2 |
| ACB | 193.370 | 0 |
| ACB | 193.650 | 0 |
| NSDQ | 193.360 | 1 |
| NSDQ | 193.660 | 2 |
| ACB | 193.350 | 11 |
| MIAA | 193.660 | 1 |
| NSDQ | 193.350 | 3 |
| NSDQ | 193.670 | 1 |
| NSDQ | 193.340 | 6 |
| ACB | 193.670 | 0 |
| ACB | 193.330 | 4 |
| NSDQ | 193.680 | 3 |
| NSDQ | 193.330 | 2 |
| NSDQ | 193.690 | 6 |
| NSDQ | 193.320 | 1 |
| ACB | 193.690 | 0 |
| ACB | 193.320 | 0 |
| NSDQ | 193.700 | 2 |
| NSDQ | 193.310 | 2 |
| NSDQ | 193.710 | 1 |
| ACB | 193.310 | 0 |
| ACB | 193.710 | 0 |
| NSDQ | 193.300 | 4 |
| NSDQ | 193.720 | 1 |
| ACB | 193.300 | 3 |
| NSDQ | 193.730 | 1 |
| NSDQ | 193.290 | 1 |
| ACB | 193.730 | 0 |
| ACB | 193.290 | 1 |
| ACB | 193.740 | 3 |
| ACB | 193.280 | 6 |
| NSDQ | 193.740 | 1 |
| NSDQ | 193.280 | 4 |
| NSDQ | 193.750 | 3 |
| NSDQ | 193.270 | 1 |
| ACB | 193.750 | 0 |
| ACB | 193.270 | 0 |
| NSDQ | 193.760 | 1 |
| NSDQ | 193.260 | 6 |
| NSDQ | 193.770 | 1 |
| NSDQ | 193.250 | 11 |
| BYX | 193.770 | 1 |
| ACB | 193.250 | 2 |
| ACB | 193.770 | 0 |
| NSDQ | 193.240 | 32 |
| NSDQ | 193.780 | 3 |
| ACB | 193.240 | 0 |
| ACB | 193.780 | 0 |
| ACB | 193.230 | 0 |
| NSDQ | 193.790 | 1 |

Level 1 data
in Think or Swim

Level 1 anatomy: best Bid and best Ask.

| TSLA | | 176.05 - 170.6 | | PCL 177.54 | | Q | |
|------|---------|----------------|---|------------|----------------------------------|---|--|
| Last | 172.48 | Δ | -5.06 (-2.9%) <th>Vol</th> <td>52,000,302<th colspan="2"></th></td> | Vol | 52,000,302 <th colspan="2"></th> | | |
| Lv1 | 172.47 | 172.5 | Bid-Ask Spread: 0.03 | | S | | |
| NSDQ | 172.480 | 0 | NSDQ | 172.490 | 0 | | |
| CHX | 172.470 | 2 | NSDQ | 172.500 | 1 | | |
| NASD | 172.470 | 2 | NSDQ | 172.500 | 0 | | |
| NSDQ | 172.470 | 1 | NSDQ | 172.510 | 1 | | |
| IEX | 172.470 | 1 | ACB | 172.510 | 0 | | |
| MEMX | 172.470 | 1 | NYSE | 172.520 | 4 | | |
| ACB | 172.470 | 0 | EDGX | 172.520 | 1 | | |
| NSDQ | 172.460 | 1 | ARCA | 172.520 | 1 | | |
| ARCA | 172.460 | 1 | ACB | 172.520 | 0 | | |
| ACB | 172.460 | 0 | NSDQ | 172.520 | 0 | | |
| NSDQ | 172.450 | 15 | NSDQ | 172.530 | 1 | | |
| ACB | 172.450 | 1 | MIAX | 172.530 | 1 | | |
| EDGX | 172.450 | 1 | BATS | 172.530 | 1 | | |
| AMEX | 172.440 | 4 | ACB | 172.530 | 0 | | |
| NYSE | 172.440 | 3 | AMEX | 172.540 | 4 | | |
| NSDQ | 172.440 | 2 | NSDQ | 172.540 | 2 | | |
| BATS | 172.440 | 1 | PSX | 172.540 | 2 | | |
| ACB | 172.440 | 0 | ACB | 172.540 | 1 | | |
| ACB | 172.430 | 1 | MEMX | 172.540 | 1 | | |
| NSDQ | 172.430 | 1 | ACB | 172.550 | 3 | | |
| NSDQ | 172.420 | 1 | NSDQ | 172.550 | 2 | | |
| ACB | 172.420 | 0 | NSDQ | 172.560 | 2 | | |
| ACB | 172.410 | 3 | ACB | 172.560 | 1 | | |
| NSDQ | 172.410 | 2 | NSDQ | 172.570 | 6 | | |
| PSX | 172.410 | 2 | ACB | 172.570 | 0 | | |
| NSDQ | 172.400 | 4 | NSDQ | 172.580 | 2 | | |
| ACB | 172.400 | 1 | ACB | 172.580 | 0 | | |
| NSDQ | 172.390 | 2 | NSDQ | 172.590 | 1 | | |
| NQBX | 172.390 | 1 | ACB | 172.590 | 0 | | |
| ACB | 172.390 | 0 | NSDQ | 172.600 | 5 | | |
| NSDQ | 172.380 | 1 | ACB | 172.600 | 0 | | |
| ACB | 172.380 | 0 | ACB | 172.610 | 3 | | |
| NSDQ | 172.370 | 2 | NSDQ | 172.610 | 1 | | |
| ACB | 172.370 | 0 | NSDQ | 172.620 | 4 | | |
| NSDQ | 172.360 | 3 | ACB | 172.620 | 1 | | |

| | Bid | Ask | | |
|-----|--------|-------|------------------------|--|
| Lv1 | 172.47 | 172.5 | Bid-Ask Spread: 0.03 S | |

Level 1 shows only current (best) Bid and current (best) Ask limit orders.

So, Level 1 shows the limit order with the **highest** price that a **buyer** is willing to pay to **buy**, and limit order with the **lowest** price that **seller** is willing to **sell** at.

- NOTE 1: If we place a **Market order** to **Buy** (Long), we will get filled at the best **Ask** price.
- NOTE 2: If we place a **Market order** to **Sell** (Short), we will get filled at the best **Bid** price.

Level 1 anatomy: best Bid and best Ask.

| TSLA | | 172.53 -- 172.55 | | Tesla, Inc. - Common Stock | | | | |
|------|---------|------------------|----------------------|----------------------------|-----|--------|---|--|
| Last | 172.48 | -5.06 (-2.9%) | Vol | 52,000,302 | PCL | 177.54 | Q | |
| Lv1 | 172.47 | 172.5 | Bid-Ask Spread: 0.03 | | S | | | |
| NSDQ | 172.480 | 0 | NSDQ | 172.490 | 0 | | | |
| CHX | 172.470 | 2 | NASD | 172.500 | 1 | | | |
| NASD | 172.470 | 2 | NSDQ | 172.500 | 0 | | | |
| NSDQ | 172.470 | 1 | NSDQ | 172.510 | 1 | | | |
| IEX | 172.470 | 1 | ACB | 172.510 | 0 | | | |
| MEMX | 172.470 | 1 | NYSE | 172.520 | 4 | | | |
| ACB | 172.470 | 0 | EDGX | 172.520 | 1 | | | |
| NSDQ | 172.460 | 1 | ARCA | 172.520 | 1 | | | |
| ARCA | 172.460 | 1 | ACB | 172.520 | 0 | | | |
| ACB | 172.460 | 0 | NSDQ | 172.520 | 0 | | | |
| NSDQ | 172.450 | 15 | NSDQ | 172.530 | 1 | | | |
| ACB | 172.450 | 1 | MIAX | 172.530 | 1 | | | |
| EDGX | 172.450 | 1 | BATS | 172.530 | 1 | | | |
| AMEX | 172.440 | 4 | ACB | 172.530 | 0 | | | |
| NYSE | 172.440 | 3 | AMEX | 172.540 | 4 | | | |
| NSDQ | 172.440 | 2 | NSDQ | 172.540 | 2 | | | |
| BATS | 172.440 | 1 | PSX | 172.540 | 2 | | | |
| ACB | 172.440 | 0 | ACB | 172.540 | 1 | | | |
| ACB | 172.430 | 1 | MEMX | 172.540 | 1 | | | |
| NSDQ | 172.430 | 1 | ACB | 172.550 | 3 | | | |
| NSDQ | 172.420 | 1 | NSDQ | 172.550 | 2 | | | |
| ACB | 172.420 | 0 | NSDQ | 172.560 | 2 | | | |
| ACB | 172.410 | 3 | ACB | 172.560 | 1 | | | |
| NSDQ | 172.410 | 2 | NSDQ | 172.570 | 6 | | | |
| PSX | 172.410 | 2 | ACB | 172.570 | 0 | | | |
| NSDQ | 172.400 | 4 | NSDQ | 172.580 | 2 | | | |
| ACB | 172.400 | 1 | ACB | 172.580 | 0 | | | |
| NSDQ | 172.390 | 2 | NSDQ | 172.590 | 1 | | | |
| NQBX | 172.390 | 1 | ACB | 172.590 | 0 | | | |
| ACB | 172.390 | 0 | NSDQ | 172.600 | 5 | | | |
| NSDQ | 172.380 | 1 | ACB | 172.600 | 0 | | | |
| ACB | 172.380 | 0 | ACB | 172.610 | 3 | | | |
| NSDQ | 172.370 | 2 | NSDQ | 172.610 | 1 | | | |
| ACB | 172.370 | 0 | NSDQ | 172.620 | 4 | | | |
| NSDQ | 172.360 | 3 | ACB | 172.620 | 1 | | | |

Bid **Ask**

Lv1 172.47 172.5 Bid-Ask Spread: 0.03 S

Level 1 shows only current (best) Bid and current (best) Ask limit orders.

So, Level 1 shows the limit order with the highest price that a buyer is willing to pay, and limit order with the lowest price that seller is willing to sell at.

NOTE 1: If we place a **Market order** to *Buy (Long)*, we will get filled at the best **Ask** price.

NOTE 2: If we place a **Market order** to *Sell (Short)*, we will get filled at the best **Bid** price.

Level 1 anatomy: best Bid and best Ask.

| TSLA | | 172.53 -- 172.55 | | Tesla, Inc. - Common Stock | |
|------|---------|------------------|----------------------|----------------------------|---|
| TSLA | ↓ | 176.05 - 170.6 | PCL | 177.54 | Q |
| Last | 172.48 | -5.06 (-2.9%) | Vol | 52,000,302 | |
| Lv1 | 172.47 | 172.5 | Bid-Ask Spread: 0.03 | | S |
| NSDQ | 172.480 | 0 | NSDQ | 172.490 | 0 |
| CHX | 172.470 | 2 | NSDQ | 172.500 | 1 |
| NASD | 172.470 | 2 | NSDQ | 172.500 | 0 |
| NSDQ | 172.470 | 1 | NSDQ | 172.510 | 1 |
| IEX | 172.470 | 1 | ACB | 172.510 | 0 |
| MEMX | 172.470 | 1 | NYSE | 172.520 | 4 |
| ACB | 172.470 | 0 | EDGX | 172.520 | 1 |
| NSDQ | 172.460 | 1 | ARCA | 172.520 | 1 |
| ARCA | 172.460 | 1 | ACB | 172.520 | 0 |
| ACB | 172.460 | 0 | NSDQ | 172.520 | 0 |
| NSDQ | 172.450 | 15 | NSDQ | 172.530 | 1 |
| ACB | 172.450 | 1 | MIAX | 172.530 | 1 |
| EDGX | 172.450 | 1 | BATS | 172.530 | 1 |
| AMEX | 172.440 | 4 | ACB | 172.530 | 0 |
| NYSE | 172.440 | 3 | AMEX | 172.540 | 4 |
| NSDQ | 172.440 | 2 | NSDQ | 172.540 | 2 |
| BATS | 172.440 | 1 | PSX | 172.540 | 2 |
| ACB | 172.440 | 0 | ACB | 172.540 | 1 |
| ACB | 172.430 | 1 | MEMX | 172.540 | 1 |
| NSDQ | 172.430 | 1 | ACB | 172.550 | 3 |
| NSDQ | 172.420 | 1 | NSDQ | 172.550 | 2 |
| ACB | 172.420 | 0 | NSDQ | 172.560 | 2 |
| ACB | 172.410 | 3 | ACB | 172.560 | 1 |
| NSDQ | 172.410 | 2 | NSDQ | 172.570 | 6 |
| PSX | 172.410 | 2 | ACB | 172.570 | 0 |
| NSDQ | 172.400 | 4 | NSDQ | 172.580 | 2 |
| ACB | 172.400 | 1 | ACB | 172.580 | 0 |
| NSDQ | 172.390 | 2 | NSDQ | 172.590 | 1 |
| NQBX | 172.390 | 1 | ACB | 172.590 | 0 |
| ACB | 172.390 | 0 | NSDQ | 172.600 | 5 |
| NSDQ | 172.380 | 1 | ACB | 172.600 | 0 |
| ACB | 172.380 | 0 | ACB | 172.610 | 3 |
| NSDQ | 172.370 | 2 | NSDQ | 172.610 | 1 |
| ACB | 172.370 | 0 | NSDQ | 172.620 | 4 |
| NSDQ | 172.360 | 3 | ACB | 172.620 | 1 |

Bid **Ask**

Lv1 172.47 172.5 Bid-Ask Spread: 0.03 S

Level 1 shows only current (best) Bid and current (best) Ask limit orders.

So, Level 1 shows the limit order with the highest price that a buyer is willing to pay, and limit order with the lowest price that seller is willing to sell at.

NOTE 1: If we place a **Market order** to *Buy (Long)*, we will get filled at the best **Ask** price.

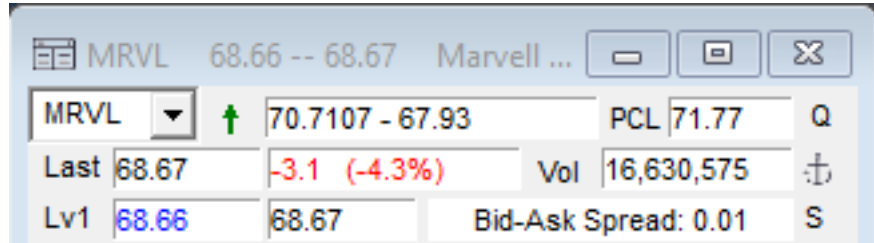
NOTE 2: If we place a **Market order** to *Sell (Short)*, we will get filled at the best **Bid** price.

Market orders usually represent **aggressive buyers** and **sellers** that we *do not* see on Level 2. These participants *can not wait for price* to come to them, they are **aggressive participants** as they want to **buy** or **sell** ASAP, now!

Limit orders usually represent **patient buyers** and **sellers** that we see on Level 2. These participants are *patiently waiting* that price comes to them.

Level 1 offers information about the spread: two examples and dangers of the spread.

Stock MRVL: Bid-Ask spread is 1 cent.



| | | | | | |
|------|-------------------|--------------|----------------------|------------|---|
| MRVL | 68.66 -- 68.67 | Marvell ... | | | |
| MRVL | ↑ 70.7107 - 67.93 | PCL 71.77 | Q | | |
| Last | 68.67 | -3.1 (-4.3%) | Vol | 16,630,575 | ↓ |
| Lv1 | 68.66 | 68.67 | Bid-Ask Spread: 0.01 | S | |

Best Bid is at \$68.66
Best Ask is at \$68.67

Market order to buy will be filled at the Ask of

If buyer wanted immediately 1000 shares, by filling the market order at Ask, the buyer is already starting with \$10 deficit.

Why? Because of the bid-ask spread of 1 cent!

$$\begin{aligned} \text{(Best Ask)} - \text{(Best Bid)} &= \text{Bid-Ask spread} \\ \$68.67 - \$68.66 &= \$0.01 \end{aligned}$$

(Bid-Ask spread) x (number of shares) = (starting deficit)

$$\$0.01 \times 1000 = \$10$$

Level 1 offers information about the spread: two examples and dangers of the spread.

Stock MRVL: Bid-Ask spread is 1 cent.

| | | | | | |
|------|-------------------|--------------|----------------------|---|--|
| MRVL | 68.66 -- 68.67 | Marvell ... | | | |
| MRVL | ↑ 70.7107 - 67.93 | PCL 71.77 | Q | | |
| Last | 68.67 | -3.1 (-4.3%) | Vol 16,630,575 | ⬇ | |
| Lv1 | 68.66 | 68.67 | Bid-Ask Spread: 0.01 | S | |

Best Bid is at \$68.66
Best Ask is at \$68.67

Market order to buy will be filled at the Ask of

If buyer wanted immediately 1000 shares, by filling the market order at Ask, the buyer is already starting with \$10 deficit.

Why? Because of the bid-ask spread of 1 cent!

$$\text{(Best Ask)} - \text{(Best Bid)} = \text{Bid-Ask spread}$$

(Bid-Ask spread) x (number of shares) = (starting deficit)

$$\$0.01 \times 1000 = \$10$$

Stock LEGN: Bid-Ask spread is 17 cents.

| | | | | | |
|------|----------------|-------------|----------------------|---|--|
| LEGN | 67.68 -- 67.85 | Legend ... | | | |
| LEGN | ↑ 69.24 - 61.3 | PCL 65.13 | Q | | |
| Last | 67.67 | 2.54 (3.9%) | Vol 1,494,925 | ⬇ | |
| Lv1 | 67.68 | 67.85 | Bid-Ask Spread: 0.17 | S | |

Best Bid is at \$67.68
Best Ask is at \$67.85

Market order to buy will be filled at the Ask of

If buyer wanted immediately 1000 shares, by filling the market order at ask, the buyer is already starting with \$170 deficit.

Why? Because of the bid-ask spread of 17 cents!

$$\text{(Best Ask)} - \text{(Best Bid)} = \text{Bid-Ask spread}$$

$$\$67.85 - \$67.68 = \$0.17$$

(Bid-Ask spread) x (number of shares) = (starting deficit)

$$\$0.17 \times 1000 = \$170$$

Bid-Ask spread.

- Bid-Ask spread is amount of \$ by which the Ask price exceeds the Bid price on Level 1 for the stock.
- Bid-Ask spread is the difference between highest price that a buyer is willing to pay, and lowest price that seller is willing to sell for.

Bid-Ask spread.

- Bid-Ask spread is amount of \$ by which the Ask price exceeds the Bid price on Level 1 for the stock.
- Bid-Ask spread is the difference between highest price that a buyer is willing to pay, and lowest price that seller is willing to sell for.
- Similar number of share size at similar stock prices can place us at a disadvantageous start when we enter a position, if Bid-Ask spread is wider.
- We can look at the Bid-Ask spread as the cost of imitating a trade, and we have to accept the Bid-Ask amount (e.g. \$10 or \$170) as tuition.

Bid-Ask spread.

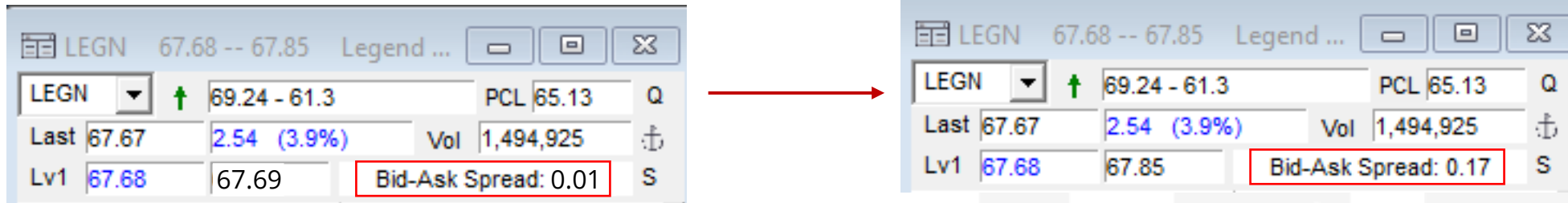
- **Bid-Ask** spread is amount of \$ by which the **Ask** price exceeds the **Bid** price on Level 1 for the stock.
- **Bid-Ask** spread is the difference between highest price that a **buyer** is willing to pay, and lowest price that **seller** is willing to sell for.
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- A stock with a **tight Bid-Ask** spread will be considered to have high liquidity and that there is high demand.
- A stock with a **wide Bid-Ask** spread will be considered to have low liquidity, volatile possibly low volume of demand.

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- NOTE: Retail traders when using market orders will always buy at Ask and sell at Bid.
- NOTE 2: Market makers can make transactions at any price within the spread, and they actually *buy at bid* and *sell at ask*.

Who is actually defining the Bid-Ask spread?

- If there is less **buyers** and **sellers**: the **Bid-Ask** spread may widen as **buyers** will place lower **Bid** priced limit orders and **sellers** will place higher priced **Ask** orders.



Bid-Ask spread will widen when there is heightened market volatility or market risk.

Bid-Ask spread is viewed as market maker's compensation for giving us liquidity and their risk. Market makers may need to take sometimes extra steps to move price from one point to another, which may result in wider bid-ask spreads.

NOTE:

Day traders should keep eye on the **Bid-Ask** spread of the stock of interest to get a sense about the stock volatility, how frequently it trades and to decide what type of order to use when making an entry.

Summary

- Level 1 data gives us information on highest **Bid** and lowest **Ask** orders.
- Based on Level 1 , we can calculate **Bid-Ask** spread.
- **Bid-Ask** spread is the difference between highest price that a buyer is willing to pay, and lowest price that seller is willing to sell for.
- The more wide **Bid-Ask** spread is, similar number of share size at similar stock prices can place us at a disadvantageous start when we enter a position.