

# Stock market participants A



**TRADING TERMINAL**.COM  
FROM BEAR BULL TRADERS

Presented by:

# Relevant stock market participants

- a) Trader.
- b) Broker for stocks (stockbroker).
- c) Automated trading, high-frequency trades (HFTs).
- d) Market makers.
- e) Institutional investors.
- f) Retail investors.
- g) Retail day traders.



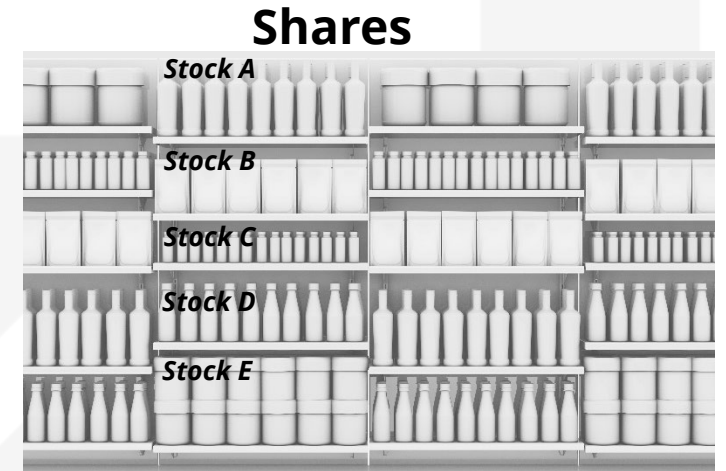
# Market makers.

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**Market makers** are one of the essential participants in the stock market.

**Market maker** is either an *individual* or a *large investment company* that “makes the market” for assets, including stocks.

**Market makers** use their own capital to do both: **buy** and **sell** stocks (or other assets) for their own huge account. We can envision this as an inventory of shelves that each holds shares of a stock.

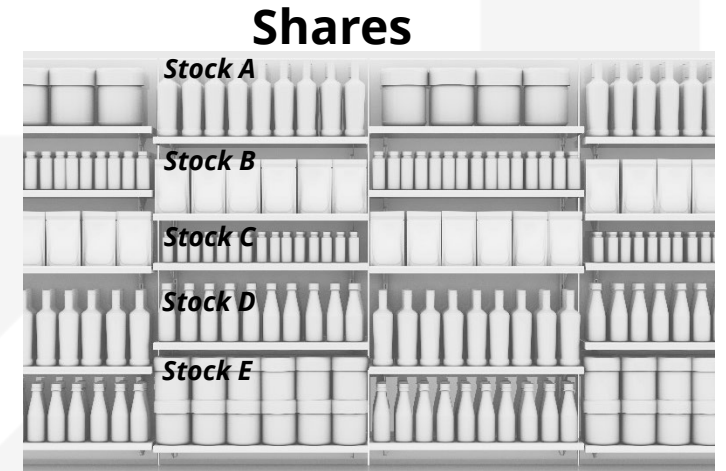


# Market makers and liquidity.

In this way, **market makers** can “shelve” huge amounts of shares of different stocks to provide **liquidity** of these shares to the interested participants in the stock markets at moments notice.

**Liquidity** represents how fast desired number of shares of a stock can a trader **buy** and **sell**.

**Market makers** have enormous amounts of shares from different stocks at hand allowing the speed of transactions.



# Market makers and liquidity.

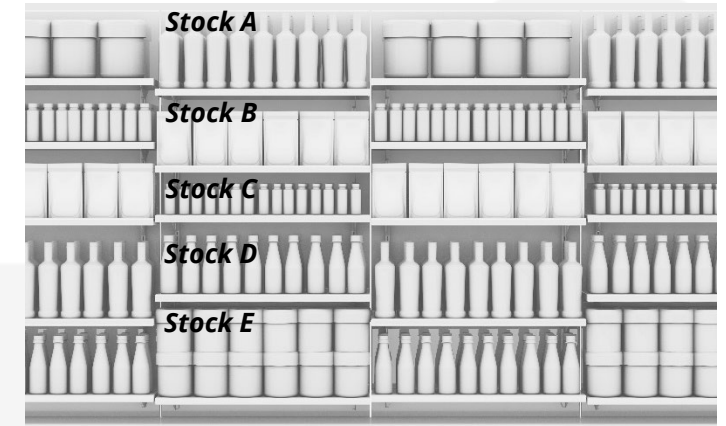
There are *different market makers* out there that have significant overlap in their inventory of shares.

So, *they compete too* to provide market with best quotes for the shares.

These quotes **at certain price levels** provided by the market makers are called *either*:

- 1) **Bids** (when they are willing to **buy** certain number of shares of a stock), or
- 2) **Offers** (when they are willing to **sell** certain number of shares of a stock)!

## Shares held by market maker A



## Shares held by market maker B

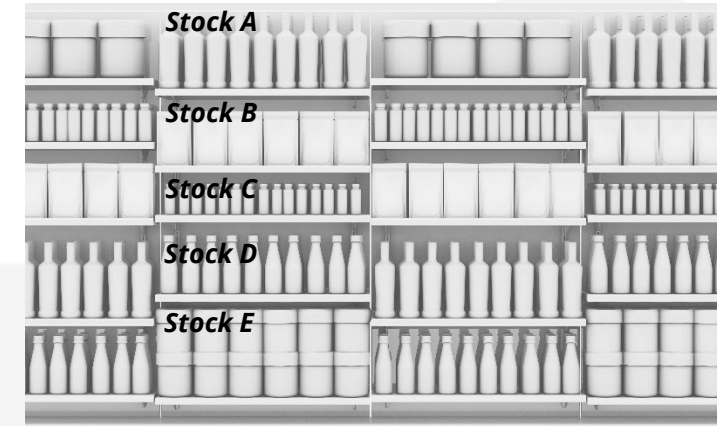


# Market makers and liquidity.

**Market makers** must and will openly show **buy (bids)** and **sell (asks)** orders at distinct prices.

In parallel, **market makers** will also display the number of shares that are available and being guaranteed at those **buy** and **sell** prices. In this way, **market makers** are making a fluid “two way” market.

## Shares held by market maker A



## Shares held by market maker B



# Market makers and liquidity.

Given the huge inventories they hold, **market makers** can provide **the needed speed of transactions** that we are used to today, and that is utilized by HFTs.

**Market makers** will have already inventoried (“in their pocket”) all the volume of shares available that the day traders want to **buy** at that exact moment.

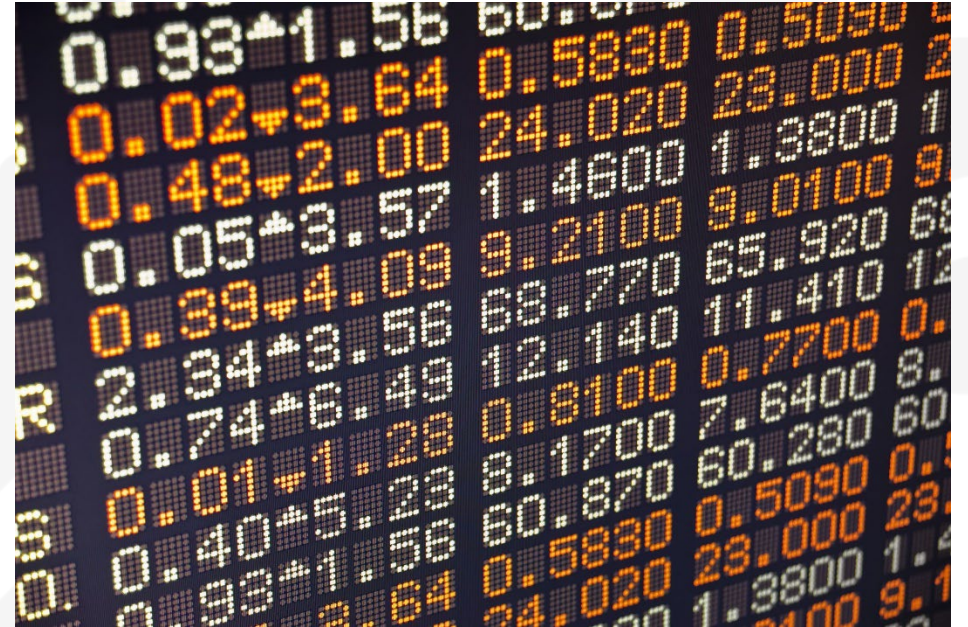
Alternatively, market maker will **buy** shares that day trading sellers want to **sell** at that exact moment.



# Market makers and liquidity.

**Market makers** do not have an opinion nor anticipation on how should price move, up or down.

**Market makers** simply provide exact number of shares to **buy** or **sell** at the exact moment in time that a day trader wants to **buy** or **sell** the right stock, at the exact amount day trader wants to **buy** or **sell** for.



# Market makers and liquidity.

Once a day trader decides to **buy** certain number of shares that is available at the offered price, **market makers** will **immediately sell** their shares to the **buyer** from their own account. This means they are decreasing their inventory on the “shelves”.

This allowed **buyer** to acquire very fast the desired number of shares at desired price thanks to the **market maker**.

Later on, when this trader or others decides to **sell** shares of that stock, and if they are offered at the current market price, **market makers** will buy them off from the trader and place them into their account. This means that market makers are increasing their inventory.



# Market makers and liquidity.

In this way, **market makers** are providing **liquidity** to the market, allowing smooth transactions between **buyers** and **sellers** and for prices to move up and down.

Importantly, the **market makers** are legally bound to fill the market orders at the best **bid** and **ask** price for their customers (you).



# Market makers and liquidity.

The **market makers** are legally bound to **buy** or **sell** 1,000 shares minimum once they entered a **bid** or **ask** price quote.

The difference in price between **bid** and **ask** price quotes is known as “the **spread**”, and that is how **market makers** get paid.

Because of **Market makers**, *traders* do not have to wait for **buyer** or **seller** to be found.



# Market makers and liquidity.

**Market makers** may offer to **buy (bid)** shares from a stock at lower price levels (e.g. 100 shares at \$100 of stock A) and, at the same time, offer to **sell (ask)** shares from the same stock at higher price (e.g. 100 shares at \$105 of the same stock A). The **spread** here is \$5.

**Market makers** may see a decrease in price for shares of a stock after they have purchased it from a **seller** and prior to selling it to a **buyer**.



# Market makers and liquidity.

**Market makers** are usually **large brokerage houses** that are putting an effort into the market to stay *liquid*.

Examples of **market makers** in New York:

- *Credit Suisse*
- *Deutsche Bank*
- *Goldman Sachs*
- *KCG Americas*
- *Timber Hill*



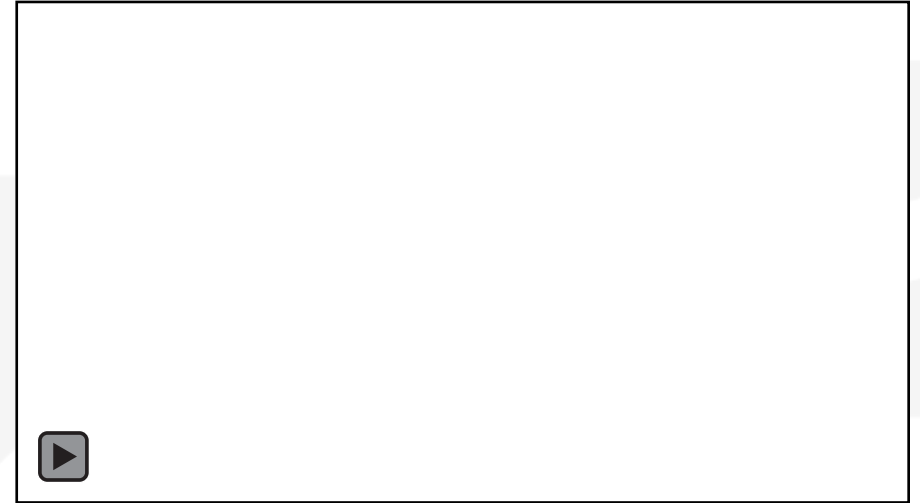
# Institutional investors.

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**Institutional investor** is a company/organization (e.g. endowment funds, commercial banks, hedge funds, pension and mutual funds, insurance companies).

**Institutional investors** have enormously large capital to **buy** and **sell** outrageous, humongous amounts of shares of wide number of stocks (or other securities).

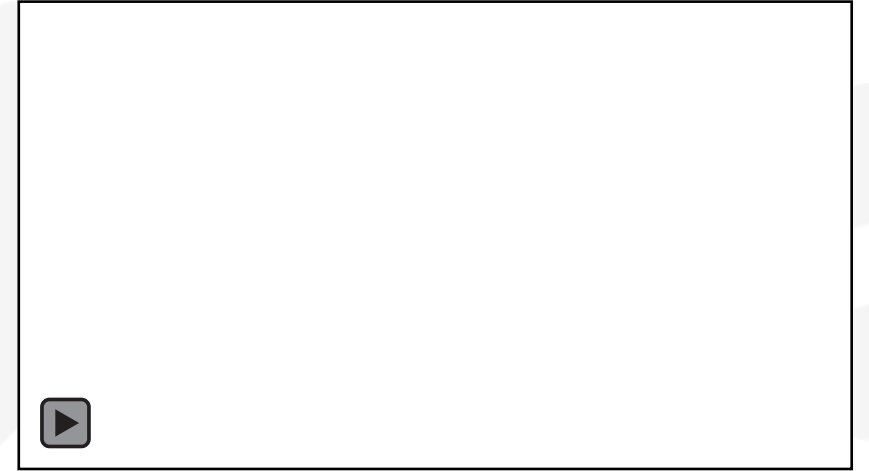
**Institutional investors** will invest on behalf on their clients and shareholders.



# Institutional investors affect the stock price.

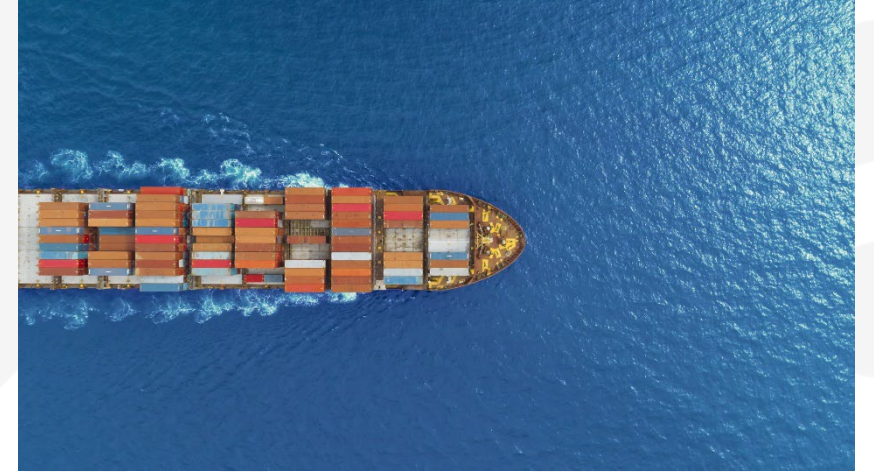
**Institutional investors** are large players in the market that have **strong effect on price movements** of a stock if they decide to suddenly **buy** or **sell** their shares (their inventory).

**Institutional investors** are making the **largest number of transactions** in the stock market (using **market makers**). It is considered today that institutional investors make approximately 90% of each individual stock trading activity.



# Institutional investors affect the stock price.

**Institutional investors** are SO large that they can **significantly move price in one or other direction** allowing traders to make significant profits or have significant losses. They can be viewed as large ships, **very tough to stop them** when they get going, and **very tough to turn the direction** of the price movement too!

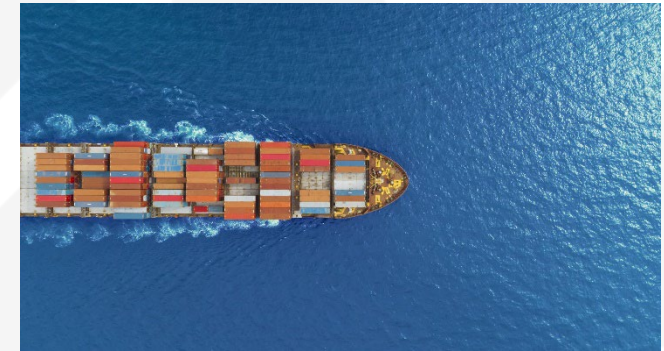
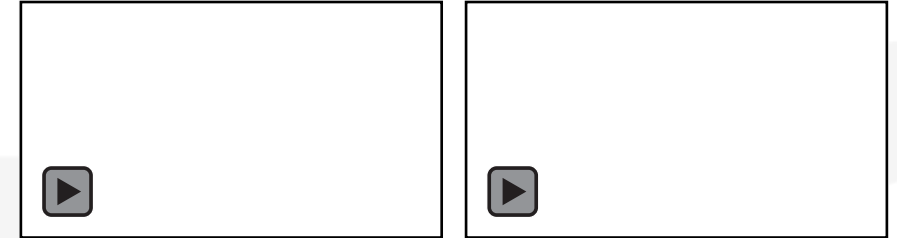


# Institutional investors show as large volume.

Some day traders recognize when large institutions are making moves and simply follow and mimic institutional investors with their day trades.

**NOTE:**

How to recognize large institution in action even when they want to hide their intentions? ***Significantly larger volume of shares is being transacted within a period of time when compared to the recent past!***



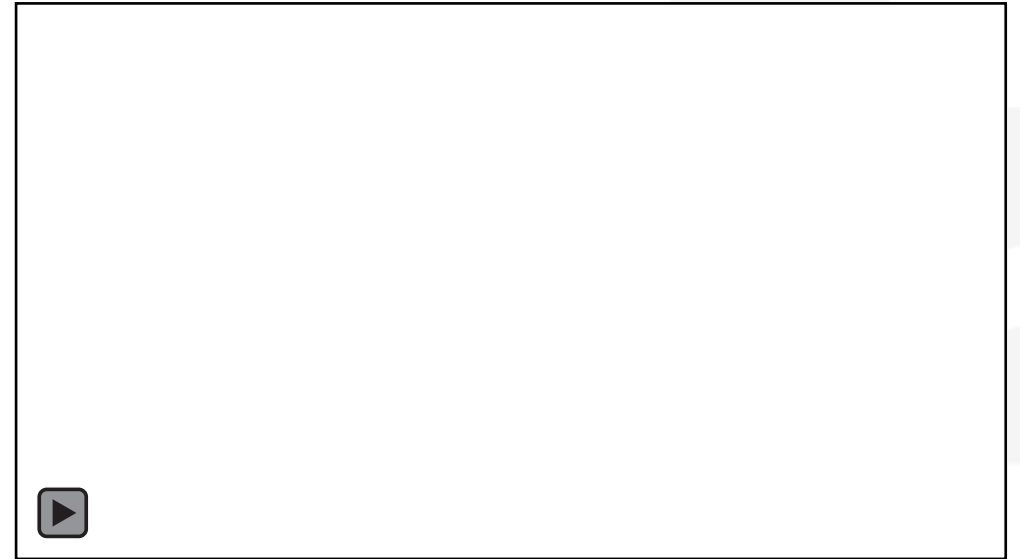
***Let's now compare Institutional investors with retail traders.***

# Retail traders

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**Retail trader** is an individual like us who trades with their own capital to place **buy** and **sell** trades.

**Retail traders** are *non-professional entities* in the stock market.



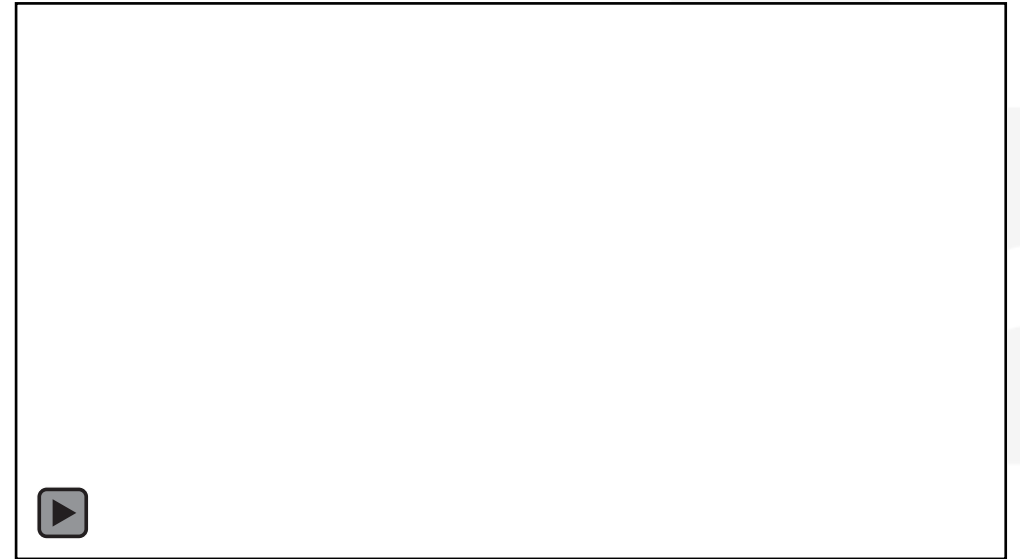
# Retail traders

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Retail traders have much smaller accounts and capital and, thus, **buying** capability than the *institutional traders*.

Retail traders have much lower access to *in-depth information* when compared to institutional traders.

*That said, there is lots of information available to the retail traders too!*



# Retail traders

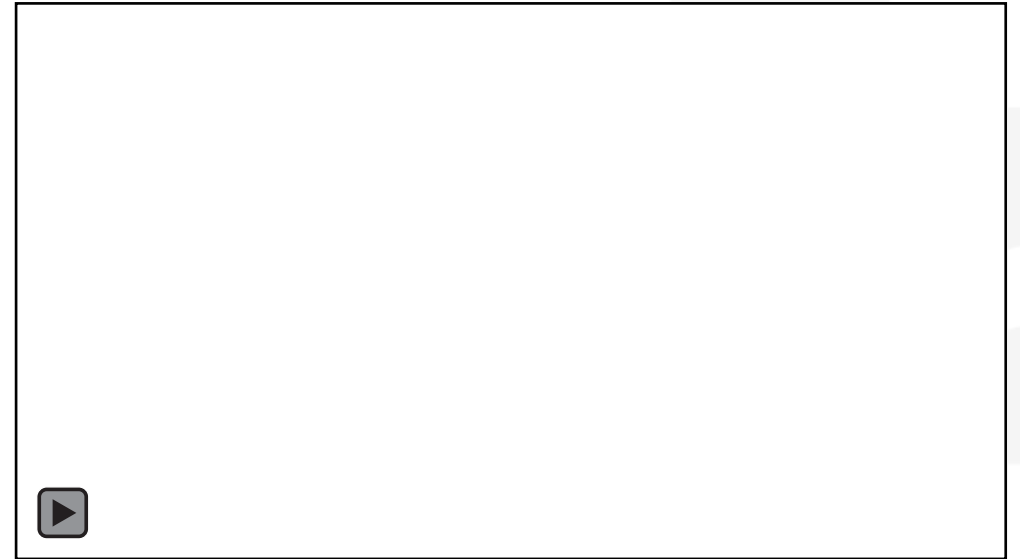
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Retail traders have much lower access to *in-depth information* when compared to institutional traders.

*Institutional investors* have the resources and specialized knowledge that **retail traders** do not have access to (yet!).

***That said, there is lots of information available to the retail traders too!***



# Retail traders

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Retail traders can be seen daily as participants that typically **buy** and **sell much** smaller numbers of shares (small volume), such as 100 shares or more.

*Institutional investors* can be seen as participants that **buy** and **sell** large numbers of shares (large volume), such as 10,000 shares or more or many, many repeats of 100-1000 shares in ridiculously short time.



# Investors

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Investor is an individual, company or mutual fund who invests money and expects to make profit over prolonged period of time.

*Investors do this to achieve their own unique life financial objectives.*



# Investors

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**Investors** invests capital (money) to acquire slow but steady wealth growths as a long-term gain!

In contrast, **Day Traders** will invest capital (money) to acquire fast short-term gains that are sometimes erratic, and then re-invest into the stocks again and again within the same day.

**Investors** typically hold positions for years or even decades. **Traders** hold for shorter time periods, even down to only for few seconds (e.g. scalpers).



# Investors vs traders

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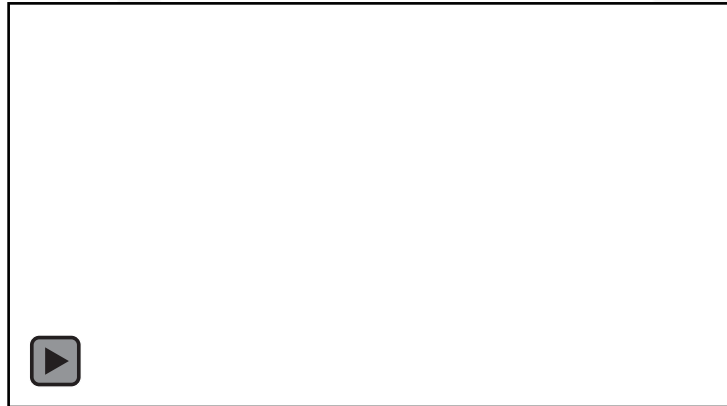
# Investors vs traders

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Investors and **traders** use different types of analysis for their unique approaches.

Investors will invest money based on the basis of higher probability that stock's share price will increase (appreciate) over time and is not concerned with price fluctuations on a shorter time frames.

Traders will invest money on the basis of higher probability in what direction will price move at that time and how to take advantage of that brief movement.



# Investor types.

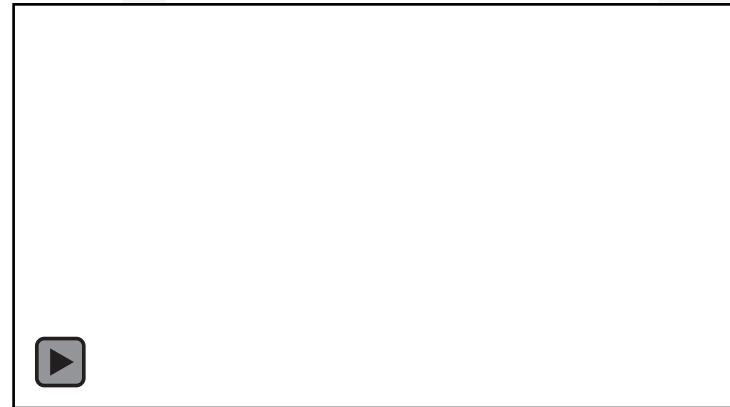
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There are many types of **investors**, such as pre-investors, passive and active investors.

**Pre-investors** are usually non-professional investors (e.g. family and friends).

**Passive investors** will invest money and expect returns, but they don't make any decisions about the company (e.g. so called angel investors).

**Active investors** invest money, expect returns, and they do make decisions about the company (e.g. so called venture capitalists, private equity firms).



# Summary

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1) **Market makers** provide *liquidity* of shares to the participants in the stock markets. They can **buy** and **sell** their own large amounts of shares of stocks (inventory) and move price in the market.

2) **Market makers** allow smooth and timely transactions between **buyers** and **sellers** and for prices to move up and down.

3) **Institutional investors** are large, humongous players in the market that have strong effect on price movements of a stock if they decide to suddenly **buy** and **sell** their shares (their inventory).

4) **Retail traders** are individuals that **buy** and **sell** with their own money on a shorter time frame, and trade in smaller quantities than institutional investors.

5) **Investors** invests money to have long-term gain and keep their investment for years or decades.

# Pattern of placing a trade

