

OTC market maker steals 9 points from retail investor
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A new ETN started trading today, the ETRACS Fisher-Gartman Risk-On ETN under ticker symbol ONN.

New issues often lack liquidity as few market making participants jump in to make markets right away. The issue opened for trading at \$24.00 and bounced around between \$22 and \$27 in early trade. Then at 09:51:42 ET, the sell side liquidity vanished for a split second showing the best offer up at \$35.

OTC market makers (aka internalizers), are allowed to print retail market orders anywhere within the spread. When the national best offer flashed \$35 for a split second, some quick internalization program printed a retail market buy order up at \$34.968. The stock immediately traded back down to \$26, allowing the OTC market maker to cover for a quick 9 points. The poor retail investor who sent that market order immediately lost the 9 points. Here is the trade sequence:

Time & Sales Ticker: ONN Date: November 30, 2011

<u>Time</u>	<u>Last</u>	<u>Size (00s)</u>
09:51:21	25.74	1
09:51:27	25.73	2
09:51:31	25.74	3
09:51:32	25.74	2
09:51:32	25.74	1
09:51:42	25.75	1
09:51:42	34.968	1
09:51:46	26.00	1
09:51:52	25.76	2
09:51:53	25.76	1
09:51:54	25.76	1

If that retail investor's buy order had been sent to any exchange, it most likely would have been executed at a much better price (as there is often hidden liquidity on the exchanges). But because OTC market makers are not required to send orders to exchanges, they were able to take advantage of the temporarily widened spread at the expense of the little guy again.

The Commission needs to investigate instances like this, and determine whether some of these OTC market makers are really giving best execution, or simply taking advantage of a retail trader's blank check.