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Proprietary Trader
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To Whom It May Concern:

I am a proprietary trader and have traded since 2000. I am writing because I am concerned with the health and safety of our markets and to ask you to make the right changes going forward. When I took my series 7 licensing test, I remember I scored very high because most of the questions were simple. Much of the test was what I deemed to be common sense, things my mother taught me growing up. This is right and this is wrong. If you are unsure and there is a gray area, then choose the path that is most inline with the spirit of the other rules. Currently there are some major wrongs going on that are plaguing our market structure and some rules that are clearly wrong which need addressing. Some of the brightest minds in the world are involved on Wall Street and it is insulting to everyone's intelligence when these great minds play dumb like they don't know what they are getting away with is wrong. I understand their greed runs deep and that they feel they have found the elusive Holy Grail and will do anything to not have to let it go, but it is wrong and should be stopped.

Dark Pools:

I have always been under the impression that markets were to be transparent so that investors and traders could make the best informed decisions they were capably of making. Dark pools are being used to abuse the NBBO by stepping in front of it by a sub penny. If the sub penny trader wants the fill they take it and if they don't they allow you to have it. I trade every day and I see hundreds of prints on the tape that are not inline with the market and print a considerable amount away from the NBBO especially after hours session. A typical example of this that can be seen every day is this: After hours session, stock closed $20.00 I am bidding $20.00 and a trade goes off on the ticker at $19.50 over 2.5% difference this is costing that participant. I have called my clearing broker dealer (Goldman Sachs) and asked why I did not get this fill when I was posted on the two major ecns (Arca and Inet). I am told because the trade occurred in a dark pool and I would need to be posted in that dark pool. I am enabled to trade in Sigma X which is Goldman's dark pool and the biggest at that, however Sigma X doesn't allow after hours trading so who got that fill and why was that trade executed in a dark pool after hours when there is no trading in the dark pool after hours? And worse yet why was that investor/trader forced to sell his stock down 2.5% lower than the NBBO that I was willing to give him? As I said before I witness this happen more than <u>a hundred times every single day</u>. That is an obscene amount of money that is being taking away from the bottom line of these market participants for no reason.

Sub-Pennys:

Sub Pennies are destroying our market and driving much needed liquidity providers out. Since I began trading I have been a liquidity provider. The current environment has made it so that I can no longer continue to perform this service. Prior to the implementation of the sub penny price greater than 95% of the orders I placed were passive liquidity providing orders. Since sub penny pricing has been in effect, 100% of my orders are liquidity taking. I like all the other traders I know, will no longer fill the book with bids and offers and we only hit standing bids and take existing offers. When the inevitable time comes where the liquidity providers service is needed most, we will not be there to support the falling market because of sub penny pricing stepping in front of our orders by an infinitesimal amount and calling it price improvement. To call these sub penny prices a price improvement is a joke. The cash value of a coupon from the newspaper is five times greater than the amount of "price improvement" being given. I could redeem newspaper coupons for more money 1/10th of a cent. When I am at the convenience store they give me nearly 100 times more price improvement when I buy a coke with their "need a penny take a penny cup" than broker dealers do when they front run the posted NBBO. There is no such money increment to a sub penny and therefore it shouldn't exist. I don't know anywhere I can spend a sub penny or anything anywhere priced in a sub penny for that matter. If a broker dealer is saving an investor/trader literally $.04 on a $10,000.00 order but is forcing them to pay a spread they are essentially stealing the difference, which is a great deal of money (see pay spread or go home below). The power to invisibly step in front of the NBBO in a dark pool by a sub penny amount and steal the fills that where actually providing a service and making a legitimate market, is bestowed in the hands of a few participants is the greatest injustice that has ever existed in the stock market. On top of that, what those few that can trade in sub pennies have the luxury of doing is buying in front of your posted NBBO and using your bid as an insurance policy in case they are wrong and need to make a quick exit they just hit your bid and stick you with the bad fill. They can do this because they can see the order flow in route to the exchange and have time to act on it and jump in front of it before it gets to the exchange. Having said that, I believe the only perfect solution is to eliminate sub pennies entirely if the security is over $1.00 a share.

Insider Trading:

The Sec defines insider trading as follows:

"Illegal insider trading refers generally to **buying or selling a security, in breach of a fiduciary duty or other relationship of trust and confidence, while in possession of material, nonpublic information about the security**. Insider trading violations may also include "tipping" such information, securities trading by the person "tipped," and securities trading by those who misappropriate such information."

I bring this up because as I see it, what they are calling Latency Arbitrage these days is actually a fancy name for insider trading. Our markets move in microseconds and traders and broker dealers strive to shave microseconds from their latency. You can no longer think mostly of the past when making future policy decisions. You must be forward thinking. Consider this, in the past if a broker dealer or market maker got a customers order and stepped in front of it because it would move the market enough that they would want to be in or out ahead of this order, that is considered clearly wrong without a doubt by everyone. The same is true if any other market participant obtained this information and traded in front of it including NYSE's Supplemental Liquidity Providers. Say that in the past a big time well known trader that moved markets like Warren Buffet for example called the floor to place an order and the clerk called his friends or family to try to trade ahead of it or the broker dealer traded ahead of it for their own account, clearly wrong and illegal. Nobody will dispute those scenarios are wrong, illegal and punishable however the same thing is happening today every single day with latency arbitrage. What is different when a select few can see other market participant's orders coming and have time to act on that information and get in front of those orders? There is no difference. Just because it's not the classic examples you are used to doesn't mean it isn't the same thing. Is it wrong to trade in front of the order of the big trader whose ten million shares will move the market but not wrong to trade in front of a 100,000 traders 100 share orders? It is the same and trading on information that all do not have and jumping in front of those incoming orders is also wrong. Just because the profit targets are smaller and the trades occur much faster round trip doesn't mean these aren't the exact same wrongs mentioned above. This is still trading on material, non public information about the security even though it's not as classic of an example as buying ahead of an earnings beat you know is coming because your CEO golf buddy told you. These are new times and rules need to be changed to reflect the markets changes.

Pay the Spread or Go Home:

If you have traded any stock that does less than a half a million shares a day average volume or you have traded the pre or post market session your familiar with being forced to pay the spread. Paying the spread is also known as the Designated Market Maker/Supplemental Liquidity Provider/Broker Dealer Tax. So a thinly traded stock such as ticker GHL for example (average daily volume 300k shares a day), on a given day will have a NYSE market of $84.87 bid $85.10 offer. If I put in a bid at $84.90 I will always instantly be jumped in front of and sometimes so rapidly that they never even display my bid and just do their own bid at $84.91. If I then bid $84.92 they jump me and bid $84.93. You see they force you to pay the spread and I generally can't get filled all the way up unless I take the offer or the market moves down sharply while I am bidding. They have zero interest in making a fair market or keeping the best and tightest spread and they wont allow others to do so either. They are only interested with keeping a tight market when real liquidity providers force them to do so. The same thing goes on pre and post market. There will be no market in a stock and if you enter a bid or offer a program will automatically jump in front of you by a penny. If you jump in front of them they jump back in front of you. If you all out cancel your order they cancel theirs and there is no market again. Not only are they discouraging liquidity they are not allowing it.

Concusion:

So what we have is a select few market participants that do not let you provide liquidity if you wanted to. They force you to pay the spread between the bid and ask if you want an execution. They steal your fill by stepping in front of the posted NBBO by as little as .0001 in a dark pool under the pretense they are doing it in the interest of the other side of the trade. I have seen them trade in dark pools as much as $5.00 away from the posted NBBO outside of the core session. They get to trade on information the rest of us do not have such as a massive influx of buy orders are on there way to the exchange right now and will hit the exchange floor in 1 second, lets quickly buy all stock at market ahead of those orders we see coming, drive the rice up and then sell them the stock we just bought ahead of them at a premium. Lets be honest, when broker dealer can have just 3 losing trading days last year and averaged $100 million a day profit the rest of the year and we are supposed to think this is a level playing field? Let us give the broker dealers trading in sub pennies the benefit of the doubt for a moment and let us say that we buy the story that they are just giving a freebie to the other side of the trade by giving them that price improvement. They are doing it out of the goodness of their hearts lets say. If that is the case, they are not acting in the best interest of their share holders by doing this. Is that not profit that shareholders are entitled to? Perhaps that needs to be investigated or a class action suit by shareholders should be filed to recover that squandered money. The bottom line is we all know these things are wrong and need to be changed. Please make the right changes before it is too late and we are all out of jobs including the SEC because nobody wants to participate in a rigged game anymore where they aren't protect by the folks that are there to protect them. The stock markets reputation has been tarnished enough. It is time to clean up the street before we all decide take our money and make wagers elsewhere; somewhere the corruption is less apparent such as boxing matches.

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