Trader Insights

Actionable Ideas for the Power to Optimize Your Trades

Tip 4: Breaking Down TRF Liquidity

Shannon Feight
Electronic Sales & Trading

MS. FEIGHT: We are seeing an increasing amount of US equity trading move to off-exchange venues; about 37% of the overall market now prints to the TRF. Analyzing this data, we find that about 15% of the overall executions occur in ATS' and 22% occur as OTC prints. OTC prints consist of wholesale market maker flows, broker principal transactions, non-ATS broker internalizations and are not eligible for algorithmic participation.

We've noticed that the breakdown between ATS and OTC trends to be correlated with market volatility - OTC market share tends to increase as volatility rises, spreads widen, quoted size increases, and market cap decreases. We also noticed trends in security type - small cap names, and commodity, volatility and levered ETFs all tend to trade with a higher % of OTC executions. Individual symbols tends to demonstrate a consistent percentage breakdown over time between exchange, ATS and OTC executions, illustrated here by the tight range distribution around the median.

There is currently no real time differentiation between ATS and OTC flows printing to the TRF, but taking this historical information into account when trading can be useful.

Consider a target percentage of volume order in a stock whose liquidity has a high proportion of OTC volume. Given the non-accessible nature of the liquidity in that stock, the participation rate against accessible liquidity could potentially be much higher than the intended target, leading to unwanted market impact. Try using a lower target participation rate than the intended target in order to achieve your desired realized rate of participation.

For more tips on optimizing your electronic trading across asset classes, check out the rest of our Trader Insights video series.