

## Trader Insights

# Actionable Ideas for the Power to Trade Smarter

## The Big Problem with Small Cap Liquidity

### John Healy

Director, Electronic Sales

Mr. Healy: Small cap stocks have always been harder and more expensive to trade than large caps, and liquidity issues have worsened over the last decade. Market makers tend to focus on the most liquid securities, making spreads for small caps even wider. In fact, over half of today's small caps are trading at least five cents wide.

In addition, small cap volume is concentrated at the end of the day, trading after 3.30 p.m. Queue lengths also increase nearer the close, when urgency grows and volume shifts from off- to on-exchange. Finally, small caps not only have more off-exchange volume, but also more hidden on-exchange volume. This emphasizes the need to place hidden orders at multiple price points, and to employ strategies for capturing off-exchange liquidity.

How can traders navigate this environment? It can help to utilize a smart strategy that's designed around the nuances of small caps, such as Capture from Bank of America. This liquidity-seeking algo looks to access both on- and off-exchange volume, and minimize market impact. It actively utilizes a variety of non-displayed order types across execution venues, placing orders at multiple price points within the spread. Capture also helps locate additional block liquidity using conditional orders. This allow you to look for blocks electronically while still actively working an order in the market.

For other actionable insights across asset classes, check out the rest of our Trader Insights series or contact your sales rep.

"Bank of America" and "BofA Securities" are the marketing names used by the Global Banking and Global Markets divisions of Bank of America Corporation. Lending, other commercial banking activities, and trading in certain financial instruments are performed globally by banking affiliates of Bank of America Corporation, including Bank of America, N.A., Member FDIC. Trading in securities and financial instruments, and strategic advisory, and other investment banking activities, are performed globally by investment banking affiliates of Bank of America Corporation ("Investment Banking Affiliates"), including, in the United States, BofA Securities, Inc. and Merrill Lynch Professional Clearing Corp., both of which are registered broker-dealers and Members of [SIPC](#), and, in other jurisdictions, by locally registered entities. BofA Securities, Inc. and Merrill Lynch Professional Clearing Corp. are registered as futures commission merchants with the CFTC and are members of the NFA.

**Investment products offered by Investment Banking Affiliates: Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed.**

©2020 Bank of America Corporation. All rights reserved.