Trading the Auctions

February 2, 2017

Executive Summary:

The exchange-operated opening and closing auctions or “crosses” are becoming an increasingly important part of the trading day, as passive investing continues to grow and traders look for opportunities to execute larger blocks of stock. A beneficial feature of market structure, these call auctions concentrate liquidity at a point in time, leading to effective price discovery.

Just as each exchange auction operates in a slightly different manner, the type of information provided by auction feeds also varies from exchange to exchange. Traders should ensure that they understand these differences and tailor their trading strategies accordingly."

Methodology:

This study includes data from interviews with 30 buy-side traders conducted during August 2016 and leverages data from 77 interviews with portfolio trading accounts conducted during the Greenwich Associates 2016 U.S. Portfolio Trading Study.

In addition, we spoke to 7 sell-side traders during September and October 2016 to gain additional qualitative insight. Quantitative analysis, performed by MayStreet LLC, was conducted using trade, quote and other market data feeds on all NMS stocks between April 1 and August 31, 2016. (Note: NYSE data from June 3 to August 31, 2016; Nasdaq data from May 16 to August 31, 2016.)

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