Bid and Ask in Day Trading

The **Bid** is the price at which a broker will buy your current day trading position from you. The **Ask** is the price at which the broker will sell you the position you require. The gap between the bid and the ask depends on many and varied factors, such as how much liquidity the instrument has, how volatile the general day trading market is, the ratio of day trading buyers vs sellers and so on.

This is why prices you see will have 2 numbers which you can see on your day trading computer - for example the price of IBM might be quoted as 110 - 112. This means that if you want to day trade IBM and want to BUY a single share, it will cost you 112 dollars, but if you want to SELL a share, you will only get 110 dollars for it. In the morning papers, usually only 1 price is shown, and this is the MID price (the middle between the bid and ask). Think of it like exchanging foreign currency when you are abroad - when you go into a Cambio, they will give you only £60 for your $100, but if you want to sell them that £60 back, you will be lucky to get $95.

Day trading Spread betting companies make their living doing just this one trick, and have wider spreads between the bid and ask than ordinary brokers, in order to make up for the absence of commission charges. Note - the "Best Bid" for a stock is usually taken to mean the highest price that a day trader buyer is willing to pay for that stock at any particular point in time. The "Best Ask" is the lowest price that a day trader seller is willing to accept for a stock at that time.

A Bid is made up of a Buy Limit Order that has been put into the market. An Ask is made up of an open Sell Limit Order.

ECN

ECN (standing for "electronic communications networks") are automated order matching systems. If a day trading request to buy or sell a stock or security is sent to any **ECN**, the ECN attempts to match the order to an opposite order (i.e a sell if its a buy, or a buy if its a sell) of the same size.

Typically, for a liquid stock, an *ECN* can manage this in a second or less. Until recently, only the largest banking and day trading institutions could day trade using ECNs.The major advantage this gave them over you and I was that this allowed them to buy and sell stocks outside the regular stock market hours (when most market-moving earnings announcements took place).

You can probably see how unfair this was for the smaller day trader, who had to wait for the market to open in order to place a trade. This state of affairs ended a few years ago, when an ECN called Island started taking orders form the public. The growth in day trading via ECNs since then has been very rapid, effectively stealing business away from the more usual brokerage methods. Due to execution speed and transparency, ECNs are extremely useful when day trading, as it is far less likely that you will suffer a 'bad fill'. Read this article on day trading for more information.

Direct AccessTrading & Day Trading

DAT (Direct Access Trading) is day trading by sending your buy and sell trade orders directly to the stock market, rather than via any particular brokerage. What people mean by "direct access trading" is a Level II day trading system (such as "RealTick" for example). Using a direct access day trading system, a day trader can choose exactly how he wants to send an order to market.

This is either to an exchange (e.g. NYSE or CME) , a computerised order matching system (an ECN standing for "electronic communications network"), or one of th eregular market makers ('big' players who are contractually obliged to 'make a market' in certain stocks). The day trader can also, if he wishes, send orders straight through a direct access broker, who can execute those trading orders much faster than your average online retail brokerage.

Speed when day trading is essential - day traders who are day trading or using short-term trading styles need to be in and out, often within minutes, and a bad fill can make the difference between day trading profit and loss. You will pay more for a direct access than you will for an ordinary online retail trading account. Spread betting firms supplying day trading facilities make their money from the spread, so don't charge extra.

Level II and Day Trading

Let's focus on the Nasdaq for the purposes of this page. Level II is a day trading system which provides a list of all buyers and sellers for each stock being day traded on the Nasdaq exchange. Bids (i.e. requests from buyers to purchase quantities of stocks) are arranged in price order (from the highest bid to the lowest bid) and Asks (sellers - the opposit of buyers) are arranged from the lowest to highest price.

NASDAQ Level II allows a day trader to guage the "depth" of the market - how much liquidity there is, where the likely "thin" spots are and so on. It can therefore help in deciding whether to place a day trade or not. If you wish to use a level II system with any degree of success, a day trading player must discover the importance of each market participant and market maker he can see on the screen. This takes time and effort - other players have worked hard for this day trading secret information and are unlikely to share it with you for free.

A direct access day trading system that utilises NASDAQ Level II makes day trading rather more likely to succeed, as it will 'level the field', i.e. it is almost the last piece of information that can be legally obtained (being able to see the market maker's "book" would be the last piece of info!). Some trading accounts provide this info free - for example at time of writing Ameritrade supply a java-based Level II viewer for th eIsland network.

Day Trading Market Makers

Market makers are the bigger participants that 'make a market' day trading in various defined stocks or other securities. Your day trading broker may actually be a market maker. Market makers, like big banks and financial institutions, make money day trading both for clients, and for their own accounts (i.e. day trading on a very large scale).

Market makers generally have a fixed contractual obligation to provide liquidity for the stocks they make a market in - this is essential to enable the market to run smoothly, and means that a market maker HAS TO GIVE YOU A PRICE. You may not, of course, like the price he gives you! Market makers can deal with incredibly large buy and sell orders, although they will always try to introduce these giant orders into the market in a 'drip feed' fashion so as not to 'tip their hand' to the other players in the market.

The big, rich and well known firms of Bear Stearns and JP Morgan are excellent examples of day trading market makers. You would be wise to avoid day trading in the opposite direction to the market maker in their own contractual stocks, because when they trade, they trade!

Paper Trading and Day Trading

Paper trading is 'pretend trading' - your very own day trading university if you like. You should always begin your day trading online career by paper trading while you are learning the ropes - you will probably need your real cash later! Paper trading gives a day trader a reasonably good feel for his talent in day trading online and how likely he is to be truly successful at day trading online.

While paper day trading online, a day trader should first become at ease with picking out potential opportunities and focussing on the mechanics of how to place (make-believe) day trades rather than worrying about his profit or loss or cash balance. Once that level has beenreached, the day trader can then begin to concentrate on creating a consistently profitable day trading strategy.

A recently developed alternative to paper trading is to try using one of the cheaper day trading online spread betting companies who will let you day trade for pennies on the point (meaning that you only risk low amounts of dollars rather than big bucks, yet you get the actual feel of 'real' day trading - something that is very hard to acheive while paper trading).

The Forex Trading Bid & Ask Prices and Spread

This page covers everything you need to know about the bid and ask prices in the online Forex trading market, From the definition of Forex bid & ask prices, to the use of the bid & ask spread.

A Forex Trading Bid price is the price at which the market is prepared to buy a specific currency pair in the Forex trading market. This is the price that the trader of Forex buys his base currency in. In the quote, the Forex bid price appears to the left of the currency quote. For example, If the EUR/USD pair is 1.2342/47, then the bid price is 1.2342. Meaning you can sell the EUR for 1.2342 USD.

A Forex asking price is the price at which the market is ready to sell a certain Forex Trading currency pair in the online Forex market. This is the price that the trader buys in. It appears to the right of the Forex quote. For example, in the same EUR/USD pair of 1.2342/47, the ask price us 1.2347. This means you can buy one EUR for 1.2347 USD.

The Forex bid & ask spread represents the difference between the purchase and the sale rates. This signifies the expected profit of the online Forex Trading transaction. The value of Bid/Ask Spread is set by the liquidity of a stock. If the stock is highly liquid, it means many stock units are being bought and sold, and the Forex bid/ask spread will be lower. Traders prefer foreign currency with a lower bid/ask spread, because it means their money pair only for the currency and is not wasted on the bid/ask spread difference. A lower Forex bid/ask spread allows the trader to cut down on his losses.

Day trading market data is the current trading information for each day trading market. Market data includes various pricing information (such as the most recently traded price), and various volume information (such as the number of contracts that were most recently traded). Day traders use market data with their trading and charting software, so that they can watch their markets and make their trades.

Market data is available in two different levels, with level 1 providing the basic trading information, and level 2 providing some additional trading information.

Level 1 Market Data

Level 1 market data provides all of the trading information that most day traders need, including the following :

- **Bid Price** - The highest price that a trader is willing to pay to buy a contract (or share). This is the price that will be received for any market orders to sell a contract.
- **Bid Size** - The number of contracts (or shares) that are available at the bid price. When this number of contracts have been traded, the bid price will move down to the next highest price.

- **Ask Price** - The lowest price that a trader is willing to accept to sell a contract (or share). This is the price that will be received for any market orders to buy a contract.
- **Ask Size** - The number of contracts (or shares) that are available at the ask price. When this number of contracts have been traded, the ask price will move up to the next lowest price.
- **Last Price** - The most recently traded price. This is also known as the closing price, if it is the last price traded in the trading session (i.e. trading day).
- **Last Size** - The number of contracts (or shares) that were most recently traded.

Level 2 Market Data

Level 2 market data provides some additional trading information that is used with trading systems that follow the order flow, such as scalping trading systems or advanced volume based trading systems. The additional trading information includes the following :

- **Highest Bid Prices** - The highest five prices that traders are willing to pay to buy a contract (or share).
- **Bid Sizes** - The number of contracts (or shares) that are available at each of the bid prices. When each of these number of contracts have been traded, the current bid price (included with level 1) will move down to the next level 2 bid price.
- **Lowest Ask Prices** - The lowest five prices that traders are willing to accept to sell a contract (or share).
- **Ask Sizes** - The number of contracts (or shares) that are available at each of the ask prices. When this number of contracts have been traded, the current ask price (included with level 1) will move up to the next level 2 ask price.

Level 2 market data is also known as the order book, because it includes all of the buy and sell orders that are currently pending for the market, and also as the market depth, because it includes the number of contracts that are available at each buying and selling price.

Availability

Both level 1 and level 2 market data are available for most day trading markets (including futures and stock markets). Level 2 market data is usually slightly more expensive than level 1 market data, because of the additional information that it provides, and because it is often considered more advanced. Which level of market data a day trader needs, will depend upon the markets that they are trading, and their trading system. Most indicator based day trading systems only need level 1 market data, but trading systems that only use price information usually need level 2 market data as well.

Most traders are aware that market prices move because of buying and selling (i.e. trading), but not many traders actually understand how buying and selling moves the market prices. This is one of the most confusing aspects of trading (especially for new traders), but it is also one of the most important.

The explanation of market price movement is composed of two parts. The first part explains how buying volume and selling volume move the market price, and is quite easy to understand. The second part explains how individual trades (as in individual transactions) are classified as either buying or selling volume, and is the part that causes the most confusion for new traders.

How Market Prices Move

Part 1 - Buying and Selling Volume (the easy part)

Every trade (as in every individual transaction) is either a buying trade or a selling trade. Buying trades help move the market price upwards, and selling trades help move the market price downwards. When there are more buying trades occuring in a market, the market price will continue moving upwards. When they are more selling trades occuring in a market, the market price will continue moving downwards. When there is a switch from more buying to more selling (or vice versa), the market price movement will change direction. That's it for the easy part.

Part 2 - Bid and Ask Volume (the complicated part)

As described in part 1, every trade (as in every individual transaction) needs to be classified as either a buying trade (i.e. buying volume) or a selling trade (i.e. selling volume). However, every trade consists of both a buyer and a seller (the traders), and therefore both a buying and a selling transaction (the trades). If every trade consists of an equal amount of buying *and* selling, how can a trade be classified as either buying *or* selling? This is the reason for the confusion that many new traders encounter when learning about market price movement.

The answer is that every trade is classified as a buying trade or a selling trade based upon how the trade affects the order book, and therefore the current market price.

The order book is composed of bid prices, ask prices, and the last price (i.e. the current market price). The bid prices are the prices at which traders have placed limit orders to buy. The ask prices are the prices at which traders have placed limit orders to sell. The last price is the most recently traded price (i.e. the most recently filled order).

When a trader places a market order to buy, a trade will occur at the current ask price, because the buy order is matched with the lowest available sell order. This causes the last price to change to the ask price, as this is now the most recently traded price. As the ask price is always higher than the bid price, the last price can only stay still or move up, and therefore this is classified as a buying trade (i.e. buying volume).

Conversely, when a trader places a market order to sell, a trade will occur at the current bid price, because the sell order is matched with the highest available buy order. This causes the last price to change to the bid price, as this is now the most recently traded price. As the bid price is always lower than the ask price, the last price can only stay still or move down, and therefore this is classified as a selling trade (i.e. selling volume).

The interaction of the order book and the market prices is much more complex than this, but the above explanation is the basis of all market price movement.

Buying and Selling Volume

Volume is the number of contracts (or shares, or forex lots) that are traded during a particular time frame. For example, daily volume is the number of contracts that are traded during one trading day. High volume is an indication that a market is being actively traded, and low volume is an indication that a market is less actively traded. High volume is often associated with high volatility (a large price range), because the increased trading activity can keep the price moving in the same direction for a significant amount of time. Volume is often shown on graphical charts along with the price, and is usually shown per price bar (i.e. an hourly chart would show the hourly volume).

Buying and Selling Volume

Total volume is made up of buying volume and selling volume. Buying volume is the number of contracts that were associated with buying trades, and selling volume is the number of contracts that were associated with selling trades. However, this is often confusing for new traders because every trade requires both a buyer (a trader that is buying a contract) and a seller (a trader that is selling a contract). As every trade requires that a contract is being both bought and sold at the same time, it does not seem possible that a trade could be classified as either buying volume or selling volume.

Bid and Ask Volume

The reason that it is possible to classify a trade as either buying volume or selling volume is based upon how the trade affects the current price. Every trade occurs at a single price, and with few exceptions, that price is either the bid price or the ask price. Volume that occurs at the bid price is known as bid volume. Bid volume is selling volume because it has the potential to move the price down, due to the bid price being lower than the ask price. Conversely, volume that occurs at the ask price is known as ask volume. Ask volume is buying volume because it has the potential to move the price up, due to the ask price being higher than the bid price. Therefore, trades that occur at the bid price are considered selling volume because they help the price move down, and trades that occur at the ask price are considered buying volume because they help the price move up.

More Buyers or Sellers

When a market is experiencing more buying volume than selling volume it means that there are more traders buying at the market price (which in this case is the ask price). Similarly, when a market is experiencing more selling volume than buying volume it means that there are more traders selling at the market price (which is this case would be the bid price). Market dynamics generally dictate that when there are more buyers than sellers, the price should move up, and that when there are more sellers the price should move down. However, the number of buyers and sellers can change at any moment (and often changes many times even in short time frames), and this is what causes the markets to move in upward and downward waves rather than only in one direction.

Order Book, Level 2 Market Data, and Depth of Market

One of the tools that day traders use to make their trades is the market data for their markets. The market data includes information about the prices, and the completed trades for the market, and is available in two different levels depending upon the information that is required :

Level 1

Basic market data is known as level 1 market data, and includes the following information:

- **Bid price:** The highest price that a trader is willing to pay to buy a contract
- **Bid size:** The number of contracts that are available at the bid price
- **Ask price:** The lowest price that a trader is willing to accept to sell a contract
- **Ask size:** The number of contracts that are available at the ask price
- **Last price:** The price at which the most recent trade was completed
- **Last size:** The number of contracts that were traded in the most recent trade

Level 1 market data provides all of the information that is needed to trade using most trading systems, including the moving average bounce, zero line cross, and pivot point bounce trading systems.

Level 2

Additional market data is known as level 2 market data, the order book, or the depth of market, and includes the following additional information:

- **Highest bid prices:** The highest 5 or 10 prices (depending upon the market) that traders are willing to pay to buy a contract
- **Bid sizes:** The number of contracts that are available at each of the highest bid prices

- **Lowest ask prices:** The lowest 5 or 10 prices (depending upon the market) that traders are willing to accept to sell a contract
- **Ask sizes:** The number of contracts that are available at each of the lowest ask prices

Level 2 market data provides the additional information that is needed to trade using trading systems that follow the order flow, and advanced volume based trading systems. Level 2 market data is also known as the order book, because it shows the orders that are currently pending for the market, and is also known as the depth of market, because it shows the number of contracts that are available at each of the available prices.

Availability and Pricing

All market data originally comes from the exchange that offers the market, and day traders receive the market data via their day trading brokerages. Both level 1 market data and level 2 market data are available for most day trading markets, including most futures markets and stock markets. The fees for level 2 market data are usually slightly higher than level 1 market data.

Also known as: Order Book, Level 2, Level II, Depth of Market, DOM