11. What else would you like us to know positive or negative - about your experience with online trading and investing?

Payment-for-order-flow has been around since the 1990's. I even punched up a page last week from the SEC itself showing a comprehensive report from the year 2000 when it had conducted an extensive investigation of PFOF in the options market place in which the SEC investigated the behavior of 24 different brokers. If PFOF really had a nasty, irrevocably intractable conflict of interest problem associated with it, such a failing would have been discovered right then. And PFOF would have been eliminated. This investigation was conducted by an SEC that was under the auspices of the Clinton administration so you can't wave off the fact that the SEC let PFOF stand by dismissing it as the largesse of a soft, look-the-other-way Republican administration.

Now twenty years later an encampment seems to have been made around PFOF and I'm wary and even a little suspicious of all the heat and am not sure how necessary it is (I see the GME-AMC fiasco as the child of the evolving capabilities of social media, allowing traders to engage in concerted action to drive up stock prices. I don't lay the blame for GME at the feet of PFOF as some in the media have done because, again, PFOF has been with us for over 20 years before the GME thing occurred.)

Detractors are charging that there's a potential, theoretical, or inherent conflict of interest associated with PFOF. Well, before we consider taking the draconian step of banning it, I think we need a stronger case than just…"potential, theoretical, or inherent". I've been doing business with PFOF broker Ameritrade for years and have been watching them quite closely. I'm in a far better position than anyone to judge whether Ameritrade has acted with a conflict of interest on my behalf. And contrary to there being a CONFLICT of interest, I feel strongly that Ameritrade, and the payment-for-order-flow system it operates under, has actually been SERVING my interests quite well.

As an American citizen, I should have the right to choose which style of broker I want to do business with. It's not right for someone to restrict my freedom of choice by making a claim that one particular style is harming me when I can see for myself that it's not. By the same token, I see the many respondents to this comment section who have expressed discomfort with PFOF and I'm sure they wish they were free to choose an alternative. Well, one way that the SEC could deal with this conflict of interest issue is by making freedom of choice available to all. Require that the brokers create a "Lit Exchanges" platform that would be available to any customer who wants to opt out of PFOF and start paying commissions and have all their orders sent to the Exchange. And, of course, the PFOF platform would remain available for those who don't want to lose their ZC. I suspect that that number in the general populace is pretty high even though they haven't made nearly any noise in this public comment section compared to those calling for a PFOF ban.

I still remember the day in October 2019 when I heard that Ameritrade had moved to zero-commissions. I thought Christmas had come early!! It's been awesome to have this headwind removed from our paths.

Yet I saw it alleged somewhere that ZC has been harmful to investors because it encourages them to over-trade and I wondered why the commenter didn't give people more credit and only took the time to focus on the negative. But I can share with you two ways that ZC has been responsible for influencing my stock market behavior in a beneficial way.

ZC has encouraged me to better diversify my holdings.

I have a small account. Since a $9.99 commission would take an appreciable bite out of the results of any trade I would make, especially when I have to pay it twice for the In and the Out, my tendency in the past was to take larger position sizes than I probably should have in an effort to dilute the effect of those commissions upon my performance.

But with ZC, I have the freedom to hold many stocks in my account and I like to go as low as $1000 per position. And if I feel that a biotech or a stock that carries a high beta has particularly promising prospects, I'll go as low as $400. That would be unthinkable for me in a $9.99 commission world. I have peace of mind in the mornings when I go to check the pre-market prices, knowing that the effects of any overnight hit will be contained to a just a small portion of my portfolio. Since the big rally off the COVID bottom in March 2020, I have to use two hands to count the times that I've had a stock suffer an overnight 5-10% news-related hit and yet still see my day get rescued as the rest of my holdings carried my account into the black by the close. That is what ZC and its ability to allow one to better diversify their holdings can do for the small investor.

ZC has encouraged me to lengthen my average holding period.

When I buy a stock, I hash-out a target exit price that I think is fairly achievable for it in the next few weeks and months ahead based on how it has performed recently….a target price that is several times the risk that I allow for the position. I'm content to wait patiently for the stock to get there and I weather the ups and downs in the interim with relative aplomb. But once the stock gets to my target, an appreciable amount of anxiety sets in and I invariably sell soon thereafter. You can guess the rest of the story….everyone with any experience in the markets has sold something high only to see it go higher. Well, in the latest book from the Market Wizards series by Jack Schwager, there are three interviewees that shared how they deal with that age old sell-high problem by scaling out of their positions and they've done it successfully. So I tried the same and had good results, as one would expect in this powerful bull market we've enjoyed off the COVID lows. It's surprising how much just a third or a quarter of your position can deliver to the overall performance of a trade when you're willing to let it ride.

Where ZC comes into play is that I never felt free to scale-out when I was staring a third $9.99 commission in the face. If you start with a $1,000 position and take three $9.99 commissions out of it, that's a 3% hit. That may not sound like much but if you keep track of all your trades over a long period of time that includes all the wins and losses and look at your average % gain, 3% is a big hit to take. But with ZC, the reticence to scale

out of a position because of the increased commissions bite has been removed as a mental roadblock. The result is that the needle on the meter that measures whether one is Trading or Investing moves a little over to the Investing side.

One of the respondents in this comment section for S7-10-21 felt that the retail investor is at a big disadvantage to the professionals and requested that you help level the playing field. Well, I look at these two ways that ZC has positively influenced my behavior and exclaim that both of them have helped level the playing field for me. I'm free to diversify like the big boys and I'm free to scale out just like the Market Wizards do. But if you remove PFOF-ZC from the market place, you are in effect un-leveling the playing field for me as I'll feel compelled to concentrate my holdings again and abandon scaling out as a policy option as the resulting commissions hit that diversifying and scaling would impose upon my account is unacceptable to me.. I beg you to leave PFOF-ZC open as an option that remains available for those who wish to choose it.

Now, I'm sure that there are some who would be quick to "educate" me that these ZC advantages and savings I've been gushing about are a mirage because they're being overmatched by the disadvantaged prices I've been having to pay as a result of PFOF. Talking heads on CNBC have been asserting that the public is being harmed by PFOF and it's appeared in print in big-name magazines so it must be true, right? But it appears to me that a lot of folks have bought into this line of thinking without stopping to double check for themselves whether these assertions are really true.

So I took a look under the hood last week to try and quantify the damage that PFOF might be inflicting upon my account. First of all, I've been watching Ameritrade like a hawk. Whenever I've traded, I've checked the bid-ask spread before I hit the Buy/Sell button and then recorded my fill price and then re-checked the spread immediately afterwards. Through long experience, I've come to not only trust Ameritrade but also highly regard them. I'm usually filled toward the middle of the spread and it's not uncommon to see that they've sold me near the offer or bought me close to the bid. Every once in a while I grimace upon seeing that I got transacted at the "business-end" of a wide spread but I'm quick to forgive given their overall level of performance. But since I haven't made a point of actually recording what the spreads were when I've traded, I had nothing to share for the purposes of this submission until I started recording some spreads last week.

The first trade of the week on Mon Sep 13 was a sell of 15 shares of "A" (all ticker symbols withheld). The spread was 71.75 by 71.77 and I got filled at 71.77. As you'd expect a sell order to get filled at the bid of 71.75, that was actually a benefit to me of 2 cents….mmmm, if we're using the middle as the fair market price, I guess I should cut that benefit to a penny. But what's the worst that could have happened there ? It would be that the market maker who would take the order referred to them by Ameritrade, instead of exiting me at the fair market price in the middle of that spread at 71.76, would have filled me at the bid of 71.75. That's the potential worst that a **slightly worse price due to a PFOF execution** could have extracted there - one cent off of 15 shares which would work out to a "whopping" 15 cents of harm. Is this what the PFOF conflict of interest

fuss is all about ?? Granted, I only do $1,000 orders and most customer orders will be higher than that. But if you measure a $10,000 order on that trade, the damage would still be contained to $1.50, which is considerably lower than a $9.99 commission. I doubt that many of the contributors to this public comment section are swinging order sizes that are greater than $10,000.

Let's list the rest of the Monday spreads I recorded. I didn't bother with Tuesday or Wednesday as the story would be repetitive – all of them were filled in the middle. I conclude with two from Thursday, the best fill of the week and the worst. The A trade which was discussed above is listed at the top.

Sell A 71.75 by 71.77 15 shares fill 71.77 benefit $ 0.15
Buy B 172.15 by 172.25 6 shares fill 172.2282 harm $ 0.17
Sell C 44.89 by 45.34 20 shares fill 45.115 harm zero
Sell D 44.77 by 44.91 20 shares fill 44.90 benefit $ 1.20
Buy E 49.80 by 49.84 20 shares fill 49.82 harm zero
Buy F 36.55 by 36.65 30 shares fill 36.60 harm zero
Sell G 50.56 by 50.74 20 shares fill 50.74 benefit $1.80
Buy H 19.85 by 19.92 30 shares fill 19.92 harm $1.05

I look at the B fill as the poster child for those who are advocating that PFOF should be banned. On the surface it looks good since I was filled below the offer but they'd argue that since the theoretical fair market price would be right in the middle at 172.20 that I was harmed by 2.282 cents. But even on a $10,000 order, that only works out to $1.70. That fill for C is where some real monkey business could have occurred as the spread was the widest one of the bunch. On a $10,000 order (200 shares) the potential for harm could go as high as $45, which is considerably higher than a $9.99 commission and here the outcry against PFOF starts to have some teeth to it. But how realistic is it, really, to expect that a 200 share order that gets sent to an exchange would actually be filled in the middle?

Now what's the worst that could have happened with those 8 fills ? Let's say I got pinched every single time by the PFOF market maker and that he wasn't content to just nick me with a slightly worse price but took me all the way to the disadvantaged end of the spread in every fill. When I add it all up, it would work out to $11.10 of harm. So if a PFOF ban would eliminate all that potential harm, my savings of $11.10 would still pale in comparison to the commissions of $9.99 that I'd now be paying on each of the 8 trades.

Getting back to the actual results, this basket of 8 fills is representative of my long-standing experience with Ameritrade, as discussed earlier. Ameritrade engages in PFOF so detractors would have expected to see some harm in that basket of 8 but instead the net benefit was $1.93. So in doing business by the way things now stand in a supposedly shady PFOF world, I actually came out ahead by $1.93. But after a PFOF ban, I lose that $1.93 as we all go to the lit exchanges and everyone gets transacted at that theoretical middle in a glorious everlasting burst of altruistic-ness so that my benefit/harm always

stays at zero (sarcasm). What's worse, to make up for the loss of PFOF, my broker now reverts to charging $9.99 per trade so that I'm out $79.92 on the above basket of 8. This is important enough to highlight:

PFOF Status-quo: Benefit of $1.93
After a PFOF ban: Harm of $79.92 + Forfeit of $1.93

As the projected harm to me after a PFOF ban is over 40 times higher than the savings obtained under the status-quo, I'm sure you'll understand if I wave my arms frantically and protest vigorously that I object to being "rescued" in such a manner. I'm reminded of the cartoon Super Pink in which the Pink Panther tries to rescue an old lady from a variety of perilous situations only to place her in positions of greater peril at every turn. Super Pink should be required viewing for every member of the regulatory community! https://youtu.be/xXvBkwihOE8

When I first began to draft a response for S7-10-21, I was focusing upon my fear at the prospect of losing ZC. But the more I've come to think about things as I've been writing, I've began to wonder whether down-deep I might actually appreciate the PFOF aspect of dealing with Ameritrade as much as I do the ZC side, seeing that I've grown accustomed to getting advantageous fills. Books that discuss trading in commodities will warn the reader against the dangers of slippage – that your order may be executed on the floor at a significantly more adverse price than you were expecting at the time you submitted the order. Well, under PFOF and Ameritrade, slippage rarely happens. Executions that were adversely outside the spread may happen less than 5% of the time and they're compensated for by all the surprisingly good fills I get. I'm not sure that I can properly convey to you the sense of comfort and confidence I have that when I place an order with Ameritrade and go to check the fill report that I'm not going to see that an "accident" has happened. That means a lot to me. If PFOF is banned and all orders go to the exchanges, I'll have to jostle with hedge funds, institutions, HFT's, prop traders, arbitrage firms like Shaw, etc to get my business done every time I make a trade. There will be times that my order will have to wait a while to get its turn in line to be executed…with the result that accidents WILL happen. Under PFOF though, it's like a butler comes in to handle my order personally and promptly…and I know ahead of time that I'm not going to have to sweat the results. I can live with the occasional **slightly** worse price. I prefer that to suffering **significantly** worse prices ….that also I expect to occur with greater frequency if I'm doing business with the exchanges.

By the way, these satisfactory results aren't just my experience alone. I quote the following paragraph from the Wikipedia entry for PFOF:

"Lower Commissions, Fees, and Price Improvement
Since retail orders have a lower chance of adverse selection for the market maker, they are more profitable for the market maker. These savings are passed on in part to the broker as PFOF, but also to the retail customer as price improvement: market makers often fill retail orders at a better price than the best price available on public exchanges.

The additional revenue for brokers allows them to charge minimal commissions.[14] PFOF was a key factor in elimination of most brokerage commissions in the United States."

And now a quote from when Commissioner Gensler spoke with CNBC:

"First, the SEC chair wants to know how the financial regulator should protect investors against a potential conflict of interest. Online brokerages generate profits when their customers trade more often. Robinhood Markets, for example, makes money in part by sending its customers' orders to high-frequency traders in exchange for cash. That process is itself controversial and known on Wall Street as payment for order flow. But if game-like prompts or congratulatory messages from online brokerages cause customers to make more trades — and especially **if more trades result in poorer portfolio performance at slightly worse prices — should the SEC interven**e?"

Obviously my answer is no to intervention directed at the PFOF side of the question as I've argued that this assertion that PFOF trades necessarily result in slightly worse prices is a mistaken assumption and not borne out by experience. But the quote leaves open the idea that action taken against gamification can be just as viable a policy option to combat this problem….and isn't gamification where the abuse in the above scenario really lies ?

As for Ameritrade, they have never once tried to guide, coax, goad, or cajole me into making trades. I do all my own work over the weekend and come into Monday morning with a list of stocks that I might consider taking action in and at what prices. If I don't see my price, I don't swing the bat. The Ameritrade site I interface with is strictly bare-bones and the only interaction it engages me with is a just-the-facts fill report after I've made a trade. No badges, changing colors, applause, or increase on a status/rewards ladder because I've made a trade. It seems to me that it should be a fairly simple matter for regulators to craft a fix that addresses manipulative website features and that it could be a fix targeted toward the brokers that have been the offenders.

Now on an unrelated note, PFOF may actually be acting as a friend to the marketplace as a whole (by keeping costs down) because of an aspect that I haven't seen discussed yet. I throw this thought out there because of something I saw Public.com say. Public is a broker that has recently abandoned PFOF because of its stigma but is still not going to charge commissions and is going to see whether tipping can augment their revenue stream. Here's the quote:

"Direct routing to the exchanges is more expensive, and therefore we're turning what used to be a revenue stream (PFOF) into a cost center and we're optimistic that the difference will be offset by the optional tipping feature," Public said."

Does that mean that it literally costs more for a broker to route a customer order to an exchange than it does to instead assign that same order to a PFOF market maker or is Public simply trying to say that the reason routing to the exchange is going to be more expensive is because they won't be getting any PFOF payments if they take that path ? (The hook there, grammatically, is that Public said exchanges were "more" expensive.

Well, it'd be impossible to be "more expensive" than a PFOF system that wasn't an expense in the first place. So that may mean that a PFOF system has some nominal costs to it that would never be a factor unless you stopped accepting the associated referral payments.). The ambiguity kept me searching and I found another quote from Public that suggests that routing to the exchanges indeed carries higher costs …

"As a replacement for what we would otherwise generate from payment-for-order-flow and to compensate for the additional costs of routing to exchanges….(snipped)… ".

So if the cost of routing an order to the exchange exceeds those nominal PFOF order referral costs, then just how high would the brokers have to set their new commissions in a post-PFOF world ? If exchange fees, seat costs, or some other factor germane to the exchanges tacks 3-4 dollars onto the price of the new commission, that would have the potential to cancel out much of the savings you were hoping to deliver to the consumer through eliminating the times that PFOF executions could saddle them with slightly worse prices.

This brings up something I've been wondering about Ameritrade. The basket of 8 fills exercise that I conducted above showed me with a benefit of $1.93 under PFOF but harm of $79.92 after a PFOF ban. Well, if I stand to lose a lot more after a PFOF ban, perhaps Ameritrade stands to make a lot more after that same ban. Their October 2019 ZC announcement was likely a step they took grudgingly as a defensive action to keep Robinhood with its ZC from siphoning away more customers. Ameritrade and other brokers that have been late to join the ZC party might secretly be happy to see PFOF banned and Robinhood lose its ZC drawing power because now they can revert to a more lucrative commissions business model. Has Ameritrade been pounding your door down after the S7-10-21 announcement to defend the status quo or have they been surprisingly silent concerning the fate of PFOF? Those $9.99 commissions of the past were likely being subsidized by a participation in PFOF that had already been a long-time practice. So could the standard commission in a post-PFOF world actually wind up being appreciably higher than $9.99.?

Hopefully, the potential for higher exchange routing costs and lost PFOF cash flow to drive up commission costs is a moot concern because you'll be leaving PFOF-ZC open. But if you do decide to ban it, take some time to discuss these and other cost factors with the brokers to ensure that their new commissions won't be egregiously high. Otherwise you risk losing ground instead of gaining it in your efforts to minimize harm to the customer.

Pschew, I hope I didn't talk your ears off there but I care a great deal about this matter. Participating in the Market and tackling the challenges it presents is a passion of mine and I don't want to see that participation get crimped in any way. Depending on what regulatory steps are taken to address the issues surrounding S7-10-21, I could wind up being harmed a great deal. Taking a baseline of 200 round-trip trades a year and subjecting them to a $9.99 commission injects $3,996 of harm just for starters. (A late disclosure: All of the above discussion has assumed the old $9.99 Ameritrade

commission as that was what was burned into my memory bank. It wasn't until well after my first draft that it dawned on me that Ameritrade had lowered its commission to $6.95 in 2017. $6.95 isn't as punitive as $9.99 so that takes a little sting out of some of the above arguments but not tooooo much. But I didn't have the heart to go back up and edit everything. So the $3996 of harm that was just referred to can be adjusted to $2780…if indeed Ameritrade would be content to charge as low as $6.95 without any supporting payments-for-order-flow after a ban.)

I also think this expectation that the detractors of PFOF seem to be holding out that when these "slightly worse prices" of PFOF trading are removed, that we'll then all be filled at the fair market price in the middle is an overly optimistic assumption. I took that basket of 8 fills and adjusted the results for what I think a crueler world of trading on the exchanges will bring. A) First of all you can say bye-bye to price improvement with the loss of PFOF so the three times that basket experienced benefit have been removed. B) I also expect to get filled at the disadvantaged end of the spreads frequently at the exchanges so I split the difference between the middle and the high end of the spread for all 8 fills. C) Finally, I injected slippage into the equation by nicking a 20 share order with 10 cents of slippage. The result was that instead of the benefit of $1.93, the basket of 8 fills would be projected to suffer harm of $7.65. Expand that over 400 trades (200 round-trips) and that burdens my baseline with $380 additional harm. So when a fella is sweating the possibility that regulatory action might saddle him with close to $4400 (or $3200 after the $6.95 adjustment) of harm annually, he gets motivated to churn out a few paragraphs to try and head that off at the pass.

If I could be Commissioner for a day, I would monitor real time transactions at Public.com where they're already routing their orders to the exchanges and compare them with transactions monitored at a PFOF broker and make a determination of which system harms customers the least. I'd bet you a steak dinner that the PFOF broker will deliver better harm/benefit metrics. But if it turns out that the orders sent by Public to the exchanges are getting filled in the middle frequently and with very little slippage, that would help put my mind at ease. As a ban of PFOF would send all of us scrambling for a new home at the exchanges, it would behoove you to take Public for a test drive first to ensure that an exchange routing system doesn't deliver worse prices than what a PFOF system does.

For generations Americans have turned their attention to Wall Street in an effort to advance their financial future. Part of the attempt to succeed in that endeavor involves the age old struggle to see that more money stays in the wallet of the investor and that less gets transferred into the pockets of the middleman. We've made tremendous progress in that struggle but I believe that a ban of payment-for-order-flow would be a step back for America as significantly more money would get transferred to the middleman through the return of commissions than is now being siphoned away through the PFOF system.

Take targeted action to improve the payment-for-order-flow system and make it more palatable for our citizens if you must but don't take any steps that would jeopardize zero-commissions.