The allowance, to trade listed companies OFF exchange, created loopholes in the rules that is regularly abused by traders/short sellers to the determent of investors and listed companies.

1. Short sellers dump borrowed shares or naked shorts ON the exchange crashing the price of a security. After the price has crashed, they buy back the shorted shares or naked shorts OFF exchange, not affecting the price, to return the borrowed shares to the lender or cancel out naked shares sold.

   With high-speed trading, this process is repeated multiple times during a trading day. Selling infinite naked shorts ON the exchange, crashing the security price, then buying them back an hour later OFF exchange, not affecting the price, leaves no trace of that naked shorts were used to fleece investors and a company’s market cap.

2. Small clients buy orders are filled off exchange at lower and lower or higher and higher prices. This causes a sustained drop or increase in the price of the security as the completed transactions are posted to the exchange.

   In the graph below (GameStop 2023-01-05, 1 second timescale) you can see how dumping large quantities of shares on the exchange has little effect on the price, however a sustained drop in price is achieved through filling client orders off exchange at lower and lower prices and posting the results to the exchange.

   When low volumes of a security is traded, on the exchange, this may be used to manipulate the price.

3. Also notice on the graph that all 12 of the 12 sell orders were routed to the exchange while only 11 of the 88 buy orders were routed to the exchange. Thus, it seems that sell orders are always subjected to price discovery while a tiny minority of buy orders are subjected to price discovery on the exchange. This practice is a guarantee that the security’s price will drop unless a big investor places huge buy orders directly on the exchange which will cause a temporary increase in the security’s price.

The allowance to trade off exchange was given to prevent sudden abnormal price fluctuations for abnormal events. Yet it is now abused by day traders to manipulate security prices. To prevent this from being abused the SEC should request that a confidential filing is done prior any off exchange trading event, stating the reasons why it is seen as an abnormal event, how many shares will be traded and when the trade will happen.


GameStop Corporation · 1s · NYSE · TradingView
O16.38 H16.38 L16.38 C16.38 +0.00 (+0.00%)
USD
16.54
16.52
16.50
16.48
16.46
16.44
16.42
16.40
16.38
16.36
Vol 100
10K
9K
8K
7K
6K
5K
4K
3K
2K
1K
12:11
12:12
12:14
12:15
12:16
12:17
12:18