

**SINCE YOU ASKED**

Confused about some aspect of trading? Professional trader Don Bright of Bright Trading ([www.stocktrading.com](http://www.stocktrading.com)), an equity trading corporation, answers a few of your questions. To submit a question, post your question to our website at <http://Message-Boards.Traders.com>. Answers will be posted there, and selected questions will appear in a future issue of S&C.



Don Bright of Bright Trading

**END-OF-DAY CLOSE IMBALANCES**

*Mr. Bright, I attended one of your classes last year and found it very helpful. One of the things you taught was how to read and respond to end-of-day market close imbalances. If I recall, you said these imbalances were put out twice during the last half hour of trading. Is that still the case? Have there been any changes to your thought process regarding how to treat them? — Edwin G.*

*Don, I want to thank you for your column and your help on the various Internet boards. You had posted at some point that there had been major changes in the market on close imbalances and even a new order type. Can you expand on this a bit? — Tradercat1975*

Let me go into more detail on the end-of-day strategies and specifically the market on close imbalance. To start with, during the day, many institutions and other trading entities submit orders to either buy or sell shares of specific stocks, with pricing to be the last trade of the day — basically, a market order for the final print each day. These orders can be submitted and even canceled until the cutoff time, which used to be 20 minutes before market close. At this time, no cancellations will be accepted and the orders are still live. The NYSE specialist firms would take the total buy orders and total sell orders and publish the net result for traders to see.

For example, if there were 500,000 buy orders in GE at market (end-of-day price) and one million shares to sell at market on close (MOC), there would be an excess of 500,000 shares to be sold at that final price. Again, this would be published 20 minutes prior to the

market close, and again 10 minutes before the close. Those who see these imbalances may enter an order to offset or pare down the excess. Traders would be able to enter buy orders to offset the imbalance. Generally, by the 10-minute listing, the imbalance would be smaller, or sometimes even reversed.

This information can be valuable to the trader of the specific stock, or even the exchange traded fund (ETF) trader who may want to see, for example, the list of all the Dow Jones Industrial Average (DJIA) stocks to find out what the sentiment is for the end of the day. If there are many more sells than buys, you can pretty much count on a downward bias.

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This methodology has changed considerably since last year, and yes, we even have a new order type added to the mix. We now have only one published imbalance at 15 minutes prior to the market close. This regulatory imbalance can still be offset with MOC orders by traders.

The problem with trading based on this information would be that by the actual closing time, the stock would have so much assistance, the imbalance could have reversed from a sell to a buy, causing havoc for traders at the bell. Our traders generally trade from the information, but not necessarily using actual MOC orders. We often see a knee-jerk reaction to a big share size imbalance go along with a hit, then cover the trade before the close. If the stock is still going our way, we

can always enter the MOC order clear until the bell.

Our traders have a nice addition to our trading platform that updates the number of shares initially published. We may see an initial 500,000 to sell, but within five minutes we may show the actual imbalance as only 100,000, which gives a heads-up as to where the price may be going.

Some of the havoc I mentioned occurs when a stock goes from a big sell imbalance to a big buy one, right before the bell. You may be expecting a few-cents downtick in the final price, but due to a last-minute order, the price may rise, possibly causing a loss. The NYSE has added an order type called *closing offset* (CO). This allows the trader to enter an order to offset the imbalance if there happens to be more assistance than expected. If you see 500,000 to sell, you sell some short, then place an order to buy MOC — which means you are now locked into a flat ending position. But what if there are so many shares that there ends up being an actual buy imbalance? In hopes of completing as many share orders as possible, the NYSE will allow for you to also enter a buy order as CO. This can be valuable to the active trader.

To summarize, be sure your platform allows you to see the published end-of-day imbalances, even if for no other reason than to see the sentiment of the market for just before the final bell. Be aware of the rules for entering, canceling, and offsetting these imbalances when trading the last few minutes of the day. The daytrader should be especially aware of this daily activity. Much like the opening-only play, the MOC play is part of the traders' arsenal.